

Press Release



Financial Results for the First Half Ended September 30, 2008

Shin-Etsu Chemical Co., Ltd.

October 23, 2008

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 14, 2008

Date of interim dividend payout November 18, 2008

Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.

Percentage figures indicate changes over the previous corresponding period.

1. Consolidated operating performance for the first half ended September 30, 2008

(From April 1, 2008 to September 30, 2008)

(1) Results of consolidated operations

(Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income
April - September 2008	695,413 -	150,101 -	156,519 -	100,953 -
April - September 2007	687,736 7.6%	140,042 16.7%	146,023 21.6%	95,194 27.0%

(Note) Percentage changes from the corresponding period of the fiscal year ended March 31, 2008 are not shown here, because the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and others have been applied from the current fiscal year for presenting the financial information.

	Net income per share (in Yen)	Diluted net income per share (in Yen)	Ratio of net income to stockholders' equity(p.a.)
April - September 2008	235.04	235.00	13.9%
April - September 2007	221.16	220.94	13.9%

(2) Consolidated financial position

(Millions of Yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in Yen)
September 30, 2008	1,893,516	1,513,795	77.5%	3,434.44
March 31, 2008	1,918,544	1,483,669	75.0%	3,344.17

(Note) Stockholders' equity (Millions of Yen) As of September 30, 2008: 1,468,021 As of March 31, 2008: 1,438,797
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	4 th quarter	Fiscal year
April 2007 - March 2008	-	40.00	-	50.00	90.00
April 2008 - March 2009	-	50.00	-	-	-
April 2008 - March 2009 (forecast)	-	-	-	50.00	100.00

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

3. Forecast of consolidated operating performance for the fiscal year ending March 31, 2009

(From April 1, 2008 to March 31, 2009)

(Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (in Yen)
Fiscal year	1,400,000 1.7%	307,000 6.9%	320,000 6.7%	200,000 8.9%	467.90

(Note) Revision of consolidated operating performance forecast for during this period: No

The forecast of results of operations made in this document involves risks and uncertainties since the forecast is 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 information

- (1) Changes in significant subsidiaries which affected the scope of consolidation during this period: No
- (2) Adoption of simplified financial accounting methods and special accounting methods for presenting quarterly consolidated financial statements: Yes
 (Note) Please see “4. Other” on page 5 for further details.
- (3) Changes of accounting policies applied, procedures and disclosures for presenting quarterly consolidated financial statements
 Changes due to revisions in accounting standards: Yes
 Changes other than the above: No
 (Note) Please see “4. Other” on page 5 for further details.
- (4) Number of shares outstanding (in shares)

	September 30, 2008	March 31, 2008
Number of shares outstanding at period end	432,106,693	432,106,693
Number of treasury stocks at period end	4,665,096	1,865,726
	April - September 2008	April - September 2007
Weighted-average number of shares outstanding over period	429,513,275	430,432,244

(Note)

- 1) The forecast of results of operations made in this document involves risks and uncertainties since the forecast is 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) Effective from the fiscal year ending March 31, 2009, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and its Implementation Guidance, “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) have been applied.
 Quarterly consolidated financial statements have been prepared in accordance with “Regulation for Quarterly Consolidated Financial Reporting”.

Qualitative Information and Consolidated Financial Statements

1. Qualitative information regarding the consolidated operating results

(1). General overview

During the first half of FY 2009 (which ends in March 31, 2009), the slowing trend in the Japanese economy became clear as indicated by the lack of strength in personal consumption and private-sector facility investment due to the effect of the worsening of the U.S. economy and the appreciation in the value of the yen, stemming from the sharp rise in crude oil prices and the subprime loan problems.

Under these circumstances, the Shin-Etsu Group has intensified its sales activities aimed at its wide range of worldwide customers while adopting appropriate measures by carefully taking into account market trends. At the same time, we are actively carrying out the expansion of production capacities and the development and commercialization of new products, and we are also devoting strenuous efforts in all of our operations to always assure our utmost priority is put on safety-first and also on environmental protection.

(2). Business segment overview

Organic and inorganic chemicals

PVC

While the U.S. housing market was slumping, Shintech, by utilizing its sales strengths that were built up over a long period of years, continued full operations by making strong sales efforts aimed at its worldwide customers. As a result, Shintech greatly increased its business performance. In addition, Shin-Etsu PVC in The Netherlands had good sales in Europe and increased its business results. On the other hand, the domestic PVC business continued in a severe situation, which was affected by the sharp rise in raw material prices and sluggish demand.

Silicones

Sales of functional silicone products, such as for on-board automotive, information technology equipment and cosmetics applications, were good, and their strong performance was contributed to by product price revisions, which came about due to the sharp rises in raw material prices. On the other hand, Shin-Etsu Polymer's business of keypads for mobile phones continued lingering at a low level, affected by a decline in unit price.

Other products

The cellulose derivatives business was strong, mainly as a result of the performance of the business for pharmaceutical products in Japan. However, the results of SE Tylose in Germany were influenced by decreased demand for construction materials. In addition, JAPAN VAM & POVAL continued strong shipments, and SIMCOA in Australia also did well due to the rise in the product price of metallic silicon.

Electronics materials

Semiconductor silicon

Although sales of 200mm wafers were affected by the decline in demand for semiconductor devices, starting with memories, sales of 300mm wafers, Shin-Etsu's main wafer product, were strong. This good performance was made possible because we focused on sales of 300mm wafers to worldwide customers and also worked continuously on improvement of productivity and product quality. During the fiscal

year that ended March 31, 2007, in response to the progress in high-performance semiconductor devices, the period of depreciation of both domestic and overseas semiconductor manufacturing facilities was changed from 5 years to 3 years.

Other products

The business performance of rare earth magnets for the electronics industry was sluggish as a consequence of the effects of a manufacturing adjustment of hard disk drives for desktop PCs. Sales of photoresists products were affected by manufacturing adjustments made by semiconductor device makers, but sales of organic materials for the electronics industry went well.

Functional materials and others

Synthetic quartz

Although sales of optical fiber preform were firm with the increase in demand coming as a result of the expanding worldwide volume of data communications, sales of large-size photomask substrates used for LCDs were not good due to market sluggishness.

Rare earth magnets for general applications and other functional materials

Sales of rare earth magnets for general applications expanded due to good demand for such applications as in energy-saving motors for air-conditioners and in automobiles. In addition, shipments of liquid fluoroelastomers and pellicles were firm.

2. Qualitative information regarding the consolidated financial position

As of September 30, 2008, Total assets were ¥1,893,516 million, a decrease of ¥25,028 million compared to that as of March 31, 2008. This decrease was mainly due to fluctuations in exchange rates affecting overseas consolidated subsidiaries and affiliates.

Total liabilities were ¥379,721 million, a decrease of ¥55,154 million compared to that as of March 31, 2008. This decrease was mainly due to a decline in Other accounts payable among Other current liabilities as a result of payments for such item as construction of equipment.

Total net assets were ¥1,513,795 million, an increase of ¥30,126 million compared to that as of March 31, 2008. This was because Retained earnings increased due to ¥100,953 million in Net income, despite a decrease of Valuation and translation adjustments. The stockholders' equity ratio was 77.5%, an increase of 2.5 percentage points compared to that as of March 31, 2008.

3. Qualitative information regarding the consolidated business forecast

With regard to our business prospects going forward, an uncertain future situation is expected as a result of the impact of trends in raw material prices and the growing concerns about an economic recession from the effects of the financial crisis.

To ride out this severe business environment, the Shin-Etsu Group will establish the world's highest level technologies and product quality, and at the same time, we will focus on improving productivity and reducing manufacturing costs and carry out investments that anticipate market needs. Furthermore, while we actively work to expand sales to areas where demand is vigorous, we will strive to build a firm business foundation through such actions as making upward adjustments in product prices to reflect sharp increases in raw material prices and endeavoring to procure stable supplies of raw materials.

The Shin-Etsu Group has not changed its business forecast, which was announced on April 28, 2008.

4. Other

(1) Changes in significant subsidiaries which affected the scope of consolidation during this period

Not applicable

(2) Adoption of simplified financial accounting methods and special accounting methods for presenting quarterly consolidated financial statements

1). Simplified financial accounting methods

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

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

Not applicable

(3) Changes of accounting policies applied, procedures and disclosures for presenting quarterly consolidated financial statements

(Changes due to revisions in accounting standards)

1. Effective from the fiscal year ending March 31, 2009, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and its Implementation Guidance, “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) have been applied.

Quarterly consolidated financial statements have been prepared in accordance with “Regulation for Quarterly Consolidated Financial Reporting”.

2. Previously, a cost method mainly based on the weighted-average method was adopted for measuring inventories held for sale in the ordinary course of business. However, effective from the first quarter ended June 30, 2008, the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9) has been applied, and now these inventories are measured by means of the cost method mainly based on the weighted-average method, which evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability.

As a result, Operating income, Ordinary income and Income before income taxes each decreased by ¥780 million.

3. Effective from the first quarter ended June 30, 2008, the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No.18) has been applied, and accordingly some revisions are made to the consolidated accounts as necessary.

As a result, Operating income increased by ¥170 million, Ordinary income and Income before income taxes increased by ¥348 million respectively.

5. Consolidated financial statements

5-1. Comparative consolidated balance sheets

As of September 30 and March 31, 2008

	Millions of Yen		
	September 30, 2008 (A)	March 31, 2008 (B)	Increase (Decrease) (A-B)
ASSETS			
Current Assets:			
Cash and time deposits	228,914	217,265	11,649
Notes and accounts receivable-trade	321,191	313,943	7,248
Securities	148,315	184,519	(36,204)
Inventories	198,922	204,336	(5,414)
Other	74,150	97,260	(23,110)
Total current assets	971,496	1,017,325	(45,829)
Fixed Assets:			
Property, plant and equipment			
Machinery and equipment	231,136	240,671	(9,535)
Other	434,255	413,972	20,283
Total property, plant and equipment	665,392	654,643	10,749
Intangible fixed assets			
Goodwill	20,657	22,803	(2,146)
Other	3,073	3,055	18
Total intangible fixed assets	23,731	25,859	(2,128)
Investments and other assets			
Investment securities	151,449	150,492	957
Other	81,447	70,224	11,223
Total investments and other assets	232,896	220,716	12,180
Total fixed assets	922,020	901,219	20,801
TOTAL ASSETS	1,893,516	1,918,544	(25,028)

	Millions of Yen		
	September 30, 2008 (A)	March 31, 2008 (B)	Increase (Decrease) (A-B)
LIABILITIES			
Current Liabilities:			
Notes and accounts payable-trade	140,890	149,304	(8,414)
Short-term borrowings	7,504	11,826	(4,322)
Accrued income taxes	38,974	39,463	(489)
Allowances	2,648	3,694	(1,046)
Other	133,780	172,359	(38,579)
Total current liabilities	323,798	376,648	(52,850)
Long-term Liabilities:			
Long-term debt	19,399	22,132	(2,733)
Allowances	11,740	13,784	(2,044)
Other	24,782	22,309	2,473
Total long-term liabilities	55,922	58,226	(2,304)
TOTAL LIABILITIES	379,721	434,875	(55,154)
NET ASSETS			
Stockholders' Equity:			
Common stock	119,419	119,419	-
Additional paid-in capital	128,177	128,177	-
Retained earnings	1,245,336	1,163,680	81,656
Less: Treasury stock, at cost	(28,177)	(12,217)	(15,960)
Total Stockholders' Equity	1,464,755	1,399,059	65,696
Valuation and translation adjustments	3,265	39,737	(36,472)
Share subscription rights	2,446	1,614	832
Minority interests in consolidated subsidiaries	43,327	43,257	70
TOTAL NET ASSETS	1,513,795	1,483,669	30,126
TOTAL LIABILITIES AND NET ASSETS	1,893,516	1,918,544	(25,028)

5-2. Consolidated statement of income

For the first half ended September 30, 2008

	<u>Millions of Yen</u> <u>April – September</u> <u>2008</u>
Net sales	695,413
Cost of sales	482,245
Gross profit	213,168
Selling, general and administrative expenses	63,066
Operating income	150,101
Non-operating income:	
Interest income	3,470
Equity in earnings of affiliates	6,173
Other income	3,698
Total non-operating income	13,343
Non-operating expenses	6,924
Ordinary income	156,519
Income before income taxes	156,519
Income taxes-current	42,692
Income taxes-deferred	11,654
Total income taxes	54,346
Minority interests in earnings of consolidated subsidiaries	1,220
Net income	100,953

5-3. Consolidated statement of cash flows

For the first half ended September 30, 2008

	Millions of Yen
	April – September 2008
1. Cash flows from operating activities	
Income before income taxes	156,519
Depreciation and amortization	61,547
Interest and dividend income	(4,207)
Equity in earnings of affiliates	(6,173)
Increase in notes and accounts receivable	(15,928)
Decrease in inventories	5,006
Decrease in notes and accounts payable	(6,960)
Other, net	(2,687)
Subtotal	187,114
Proceeds from interest and dividends	4,725
Payment of interest	(840)
Payment of income taxes	(44,090)
Net cash provided by operating activities	146,910
2. Cash flows from investing activities	
Net increase in marketable securities	(7,635)
Purchase of property, plant and equipment	(110,010)
Purchase of investment securities	(10,011)
Proceeds from sales and redemption of investment securities	29,774
Other, net	(2,299)
Net cash used for investing activities	(100,183)
3. Cash flows from financing activities	
Net decrease in short-term borrowings	(3,331)
Repayment of long-term debt	(2,041)
Purchase of treasury stock	(16,177)
Cash dividends paid	(21,512)
Other, net	(389)
Net cash used for financing activities	(43,452)
4. Effect of exchange rate changes on cash and cash equivalents	(5,403)
5. Net decrease in cash and cash equivalents	(2,128)
6. Cash and cash equivalents at beginning of period	301,619
7. Cash and cash equivalents at end of period	299,490

5-4. Notes on premise of going concern

Not applicable.

5-5. Segment information

(1). Business segment information

	Millions of Yen					
	April - September 2008					
	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Total	Elimination or corporate	Consolidated total
Sales to outside customers	354,456	285,008	55,948	695,413	-	695,413
Intersegment sales	6,147	1,680	46,935	54,764	(54,764)	-
Total	360,604	286,688	102,883	750,177	(54,764)	695,413
Operating income	55,536	79,440	15,350	150,327	(225)	150,101

(2). Geographic segment information

	Millions of Yen						
	April - September 2008						
	Japan	North America	Asia/ Oceania	Europe	Total	Elimination or corporate	Consolidated total
Sales to outside customers	341,819	159,480	103,189	90,923	695,413	-	695,413
Intersegment sales	121,936	30,540	28,182	505	181,164	(181,164)	-
Total	463,755	190,020	131,372	91,429	876,578	(181,164)	695,413
Operating income	113,952	22,062	7,049	6,404	149,469	632	150,101

(3). Overseas sales information

	Millions of Yen				
	April - September 2008				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	135,059	176,479	86,720	38,217	436,476
Consolidated sales					695,413
Percentage of overseas sales over consolidated sales	19.4	25.4	12.5	5.5	62.8

(Note) Sales to China, which are included in Asia/Oceania, were ¥52,148 million for the first half ended September 30, 2008.

5-6. Notes on significant changes in Stockholders' Equity

Not applicable.

[Supplementary data: Details of Business Segment Information (Net Sales and Operating Income)]

	Billions of Yen					
	Net Sales			Operating Income		
	April- September 2008	April- September 2007	Increase (Decrease)	April- September 2008	April- September 2007	Increase (Decrease)
Polyvinyl chloride	184.1	179.5	4.6	18.2	16.3	1.9
Silicones	96.8	98.7	(1.9)	22.8	21.1	1.7
Others	73.6	66.2	7.4	14.5	10.8	3.7
Total Organic and Inorganic Chemicals Business Segment	354.5	344.4	10.1 [2.9%]	55.5	48.2	7.3 [15.1%]
Semiconductor silicon	248.1	244.4	3.7	69.9	69.5	0.4
Others	36.9	41.1	(4.2)	9.5	9.5	0.0
Total Electronics Materials Business Segment	285.0	285.5	(0.5) [(0.2%)]	79.4	79.0	0.4 [0.5%]
Synthetic quartz products	13.7	15.7	(2.0)	5.5	5.9	(0.4)
Rare earth magnets for general applications and Other functional materials	20.8	18.6	2.2	5.8	4.4	1.4
Others	21.4	23.5	(2.1)	4.1	2.7	1.4
Total Functional Materials and Others Business Segment	55.9	57.8	(1.9) [(3.2%)]	15.4	13.0	2.4 [18.1%]
Elimination	-	-	-	(0.2)	(0.2)	0.0
Total	695.4	687.7	7.7 [1.1%]	150.1	140.0	10.1 [7.2%]

(Reference: Consolidated financial statements for the first half ended September 30, 2007)

(1). Consolidated statement of income

	Millions of Yen
	April – September 2007
Net sales	687,736
Cost of sales	473,345
Gross profit	214,391
Selling, general and administrative expenses	74,348
Operating income	140,042
Interest income	4,940
Dividend income	683
Equity in earnings of affiliates	6,762
Other income	2,160
Total Non-operating income	14,547
Interest expenses	1,582
Loss on disposal of Property, plant and equipment	649
Foreign exchange loss	1,312
Other expenses	5,022
Total Non-operating expenses	8,566
Ordinary income	146,023
Cumulative effect of foreign subsidiary's accounting change	2,603
Net gain on insurance	1,485
Gain on sales of land	968
Total Extraordinary income	5,058
Income before income taxes	151,082
Income taxes-Current	60,576
Income taxes-Deferred	(7,004)
Minority interests in earnings of consolidated subsidiaries	2,315
Net income	95,194

(2). Consolidated statement of cash flows

For the first half ended September 30, 2007

	Millions of Yen
	April – September 2007
1. Cash flows from operating activities	
Income before income taxes	151,082
Depreciation and amortization	65,442
Increase in accrued retirement benefits	798
Interest and dividend income	(5,624)
Interest expenses	1,582
Foreign exchange loss (gain)	878
Equity in earnings of affiliates	(6,762)
Increase in notes and accounts receivable	(15,239)
Increase in inventories	(4,962)
Decrease in notes and accounts payable	(10,249)
Other, net	(7,771)
Subtotal	169,175
Proceeds from interest and dividends	6,004
Payment of interest	(1,557)
Payment of income taxes	(71,079)
Net cash provided by operating activities	102,543
2. Cash flows from investing activities	
Net decrease in marketable securities	8,959
Purchase of property, plant and equipment	(135,322)
Proceeds from sales of property, plant and equipment	192
Purchase of intangible fixed assets	(723)
Purchase of investment securities	(16,152)
Proceeds from sales and redemption of investment securities	23,305
Payment of loans	(2)
Proceeds from collection of loans	676
Other, net	(2,538)
Net cash used for investing activities	(121,604)
3. Cash flows from financing activities	
Net decrease in short-term borrowings	(2,834)
Proceeds from long-term debt	5,000
Repayment of long-term debt	(14,304)
Cash dividends paid	(19,378)
Other, net	(6,676)
Net cash used for financing activities	(38,194)
4. Effect of exchange rate changes on cash and cash equivalents	6,789
5. Net decrease in cash and cash equivalents	(50,465)
6. Cash and cash equivalents at beginning of period	404,532
7. Cash and cash equivalents at end of period	354,067

(3). Segment information

(a). Business segment information

	Millions of Yen					
	April - September 2007					
	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Total	Elimination or corporate	Consolidated total
Sales to outside customers	344,442	285,486	57,807	687,736	-	687,736
Intersegment sales	8,288	2,409	40,809	51,508	(51,508)	-
Total	352,731	287,895	98,617	739,245	(51,508)	687,736
Operating income	48,240	79,007	13,002	140,250	(207)	140,042

(b). Geographic segment information

	Millions of Yen						
	April - September 2007						
	Japan	North America	Asia/ Oceania	Europe	Total	Elimination or corporate	Consolidated total
Sales to outside customers	327,113	152,991	119,260	88,371	687,736	-	687,736
Intersegment sales	145,354	30,243	31,471	1,628	208,696	(208,696)	-
Total	472,467	183,234	150,732	89,999	896,433	(208,696)	687,736
Operating income	103,455	17,877	12,355	7,604	141,291	(1,249)	140,042

(c). Overseas sales information

	Millions of Yen				
	April - September 2007				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	141,765	213,741	87,403	31,305	474,215
Consolidated sales					687,736
Percentage of overseas sales over consolidated sales	20.6	31.1	12.7	4.6	69.0

(Note) Sales to China, which are included in Asia/Oceania, were ¥57,754 million for the first half ended September 30, 2007.