

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2010

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



January 25, 2011

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

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Date of the filing of the quarterly consolidated financial statements: February 14, 2011

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 Three Quarters Ended December 31, 2010

(From April 1, 2010 to December 31, 2010)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April – December 2010	802,174	20.0%	114,024	35.0%	121,335	33.6%	88,212	50.3%
April – December 2009	668,206	(34.1%)	84,483	(61.0%)	90,840	(59.7%)	58,689	(58.7%)

	Net income per share (in yen)	Diluted net income per share (in yen)
April – December 2010	207.75	-
April – December 2009	138.26	138.24

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
December 31, 2010	1,766,143	1,471,098	80.9%	3,363.90
March 31, 2010	1,769,139	1,474,212	80.9%	3,370.56

(Note) Stockholders' equity (Millions of yen) As of December 31, 2010: 1,428,301 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 st quarter	2 nd quarter	3 rd 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 third 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)

	December 31, 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	7,509,561	7,505,054
	April – December 2010	April – December 2009
Weighted-average number of shares outstanding over period (accumulated)	424,599,726	424,495,525

(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)

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. Other Information	5
(1) Overview of changes in significant subsidiaries	5
(2) Overview of adoption of simplified accounting methods and special accounting methods for presenting quarterly consolidated financial statements	5
(3) Overview of changes in accounting policies applied, procedures and disclosures.....	5
(4) Overview of key events regarding the premise of going concern.....	5
3. Consolidated Financial Statements	6
(1) Consolidated balance sheets.....	6
(2) Consolidated statements of income.....	8
(3) Consolidated statements of cash flows.....	9
(4) Notes on premise of going concern.....	10
(5) Segment and related information	10
(6) Notes on significant changes in stockholders' equity	11

1. Qualitative Information Regarding Quarterly Results

(1) Qualitative information regarding the consolidated operating results

With regard to the world economy, during the first three quarters of FY 2011 (April 1, 2010 to December 31, 2010), in the Asian region, centering on China, the movement toward economic recovery continued. On the other hand, in Europe and the United States, although there were signs of gradual recovery, a 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 recovery lacked strength.

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 three quarters of FY 2011 show that net sales increased by 20.0% (¥133,968 million) compared with the same fiscal period last year to ¥802,174 million. Compared with the performance of the same fiscal period last year, operating income increased by 35.0% (¥29,541 million) to ¥114,024 million, and ordinary income increased by 33.6% (¥30,495 million) to ¥121,335 million.

Net income during the first three quarters of FY 2011 became ¥88,212 million, an increase of 50.3% (¥29,523 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 the long-term slump in the U.S. housing market continued, Shintech Inc. in the U.S. maintained firm shipments by means of sales utilizing the relationships with its worldwide customers, which it has been cultivating over many years. In addition, the second-phase expansion-construction of Shintech's Plaquemine No.1 PVC Plant in Louisiana was completed, and as a result, Shintech's official PVC production capacity increased to 2.64 million tons/year. Shin-Etsu PVC in The Netherlands also continued strong shipments. However, in Japan, a severe situation continued for this business due to such factors as a rise in raw materials prices and 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 ¥213,070 million and operating income was ¥14,352 million.

Silicones Business

With regard to the silicones business, supported by a brisk demand recovery, sales in Japan continued to be strong in a wide range of product areas such as for electric, electronics, automobile and cosmetic applications. With regard to our international silicones business, demand recovery was seen, centering on the Asian region.

As a result, net sales for this business segment were ¥107,574 million and operating income was ¥25,850 million.

Specialty Chemicals Business

With regard to sales of cellulose derivatives, in Japan pharmaceutical-use products continued good shipments 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 for construction-application products in Europe.

As a result, net sales for this business segment were ¥61,376 million and operating income was ¥9,227 million.

Semiconductor Silicon Business

With regard to semiconductor demand, mainly from the beginning of this fiscal year to the end of the first half of the fiscal year, market demand for electronics devices for applications in such products as PCs, mobile phones and flat-panel TVs continued to be strong, and because demand recovery was seen in diverse applications fields for semiconductor devices, wafer shipments remained firm. On the other hand, from the beginning of the fall, because the semiconductor market entered into a correction phase and there was also a movement toward customer inventory adjustment, silicon wafer demand softened.

As a result, net sales for this business segment were ¥218,889 million and operating income was ¥31,294 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 energy-efficient types of air conditioners and in hybrid cars were strong. The business of coating material for high-luminance LEDs remained firm; however, in part, it was affected by inventory adjustments. The photoresists products business remained strong, aided by progress in the miniaturization of semiconductor devices. With regard to synthetic quartz products, shipments of optical fiber preform and large-size photomask substrates used for LCDs were good.

As a result, net sales for this business segment were ¥105,782 million and operating income was ¥27,231 million.

Diversified Business

Although the business of keypads for mobile phones remained weak due to such factors as 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 ¥95,481 million and operating income was ¥5,777 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 business situation continues to 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. The future of demand for PCs and LCD TVs, which drive the demand for electronics materials, is also in an uncertain situation.

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 December 31 and March 31, 2010

	Millions of yen	
	December 31, 2010	March 31, 2010
ASSETS		
Current Assets:		
Cash and time deposits	234,430	209,046
Notes and accounts receivable-trade	299,761	273,949
Securities	91,190	109,761
Inventories	181,459	183,553
Other	56,074	69,203
Less: Allowance for doubtful accounts	(2,645)	(2,943)
Total current assets	860,272	842,571
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment	245,029	264,014
Other	381,166	382,118
Total property, plant and equipment	626,196	646,133
Intangible fixed assets	14,625	17,055
Investments and other assets		
Investments and other assets	265,083	263,391
Less: Allowance for doubtful accounts	(33)	(13)
Total investments and other assets	265,049	263,378
Total fixed assets	905,871	926,568
TOTAL ASSETS	1,766,143	1,769,139

	Millions of yen	
	December 31, 2010	March 31, 2010
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	113,346	93,294
Short-term borrowings	11,698	11,866
Accrued income taxes	18,094	18,213
Allowances	2,364	2,441
Other	85,233	104,309
	230,738	230,124
Total current liabilities		
Long-term Liabilities:		
Long-term debt	6,032	7,884
Allowances	14,087	13,046
Other	44,186	43,870
	64,306	64,802
Total long-term liabilities		
TOTAL LIABILITIES	295,044	294,926
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,364,136	1,318,413
Less: Treasury stock, at cost	(40,911)	(40,892)
	1,570,822	1,525,118
Total stockholders' equity		
Valuation and Translation Adjustments:		
Unrealized gains (losses) on available-for-sale securities	2,752	6,717
Deferred gains (losses) on derivatives under hedge accounting	568	517
Foreign currency translation adjustments	(145,841)	(101,207)
	(142,520)	(93,972)
Total valuation and translation adjustments		
Share Subscription Rights	3,828	3,648
Minority Interests in Consolidated Subsidiaries	38,968	39,417
	1,471,098	1,474,212
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS	1,766,143	1,769,139

(2) Consolidated statements of income

For the first three quarters ended December 31, 2009 and 2010

	Millions of yen	
	April - December 2009	April - December 2010
Net sales	668,206	802,174
Cost of sales	509,708	609,151
Gross profit	158,497	193,023
Selling, general and administrative expenses	74,014	78,998
Operating income	84,483	114,024
Non-operating income:		
Interest income	3,065	2,182
Equity in earnings of affiliates	5,914	9,854
Other income	4,625	9,773
Total non-operating income	13,606	21,811
Non-operating expenses:		
Foreign exchange loss	1,669	12,350
Other expenses	5,580	2,150
Total non-operating expenses	7,249	14,501
Ordinary income	90,840	121,335
Income before income taxes	90,840	121,335
Income taxes-current	15,055	33,625
Income taxes for prior periods	-	(10,679)
Income taxes-deferred	16,353	8,999
Total income taxes	31,409	31,945
Income before minority interests	-	89,389
Minority interests in earnings (losses) of consolidated subsidiaries	741	1,177
Net income	58,689	88,212

(3) Consolidated statements of cash flows

For the first three quarters ended December 31, 2009 and 2010

	Millions of yen	
	April - December 2009	April - December 2010
1. Cash flows from operating activities		
Income before income taxes	90,840	121,335
Depreciation and amortization	62,048	69,256
Interest and dividend income	(3,884)	(3,379)
Equity in (earnings) losses of affiliates	(5,914)	(9,854)
(Increase) decrease in notes and accounts receivable	(57,000)	(34,381)
(Increase) decrease in inventories	25,530	(2,336)
Increase (decrease) in notes and accounts payable	21,665	22,379
Other, net	(22,201)	3,525
Subtotal	<u>111,082</u>	<u>166,545</u>
Proceeds from interest and dividends	6,801	8,339
Payment of interest	(524)	(404)
Payment of income taxes	(17,444)	(31,861)
Income taxes refund	-	9,602
Net cash provided by operating activities	<u>99,914</u>	<u>152,219</u>
2. Cash flows from investing activities		
Net (increase) decrease in marketable securities	23,244	(270)
Purchase of property, plant and equipment	(102,682)	(92,229)
Purchase of investment securities	(5,943)	(7,305)
Proceeds from sales and redemption of investment securities	2,729	5,094
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,266)	-
Other, net	4,362	(10,693)
Net cash used for investing activities	<u>(80,556)</u>	<u>(105,404)</u>
3. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,690	(930)
Repayment of long-term debt	(5,460)	(900)
Cash dividends paid	(42,448)	(42,460)
Other, net	(913)	(551)
Net cash used for financing activities	<u>(47,132)</u>	<u>(44,842)</u>
4. Effect of exchange rate change on cash and cash equivalents	<u>591</u>	<u>(5,719)</u>
5. Net increase (decrease) in cash and cash equivalents	<u>(27,183)</u>	<u>(3,746)</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>223,861</u>	<u>267,187</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 – December 2010								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	213,070	107,574	61,376	218,889	105,782	95,481	802,174	-	802,174
Intersegment sales	15,812	2,995	4,790	5	2,115	48,366	74,085	(74,085)	-
Total	228,882	110,569	66,167	218,894	107,898	143,847	876,260	(74,085)	802,174
Segment income (Operating income)	14,352	25,850	9,227	31,294	27,231	5,777	113,734	290	114,024

*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 three quarters of the previous fiscal year is reclassified as follows:

	Millions of yen								
	April – December 2009								
	PVC/Chlor- Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment*	Figures in consolidated statement of income
Sales to outside customers	176,024	89,226	58,565	184,968	81,174	78,246	668,206	-	668,206
Intersegment sales	2,288	2,392	3,305	43	1,682	80,586	90,298	(90,298)	-
Total	178,313	91,618	61,870	185,011	82,857	158,832	758,504	(90,298)	668,206
Segment income (Operating income)	15,384	17,098	10,240	16,351	21,495	5,029	85,598	(1,115)	84,483

*Elimination of intersegment transactions

(6) Notes on significant changes in stockholders' equity

Not applicable