

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2011

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



January 26, 2012

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

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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, 2011

(From April 1, 2011 to December 31, 2011)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April – December 2011	791,435	(1.3%)	117,633	3.2%	125,429	3.4%	75,627	(14.3%)
April – December 2010	802,174	20.0%	114,024	35.0%	121,335	33.6%	88,212	50.3%

(Note) Comprehensive income (Millions of yen) From April, 2011 to December, 2011: 37,108 [(6.2%)]

From April, 2010 to December, 2010: 39,576 [- %]

	Net income per share (in yen)	Diluted net income per share (in yen)
April – December 2011	178.12	-
April – December 2010	207.75	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
December 31, 2011	1,764,594	1,462,872	80.6%	3,349.38
March 31, 2011	1,784,166	1,469,429	80.0%	3,360.39

(Note) Stockholders' equity (Millions of yen) As of December 31, 2011: 1,422,125 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 three quarters ended December 31, 2011 : No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first three quarters ended December 31, 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>December 31, 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	7,512,358	7,510,657
	<u>April – December 2011</u>	<u>April – December 2010</u>
Weighted-average number of shares outstanding over period	424,595,168	424,599,726

(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)

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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 three quarters of FY 2012 (April 1, 2011 to December 31, 2011) in the Asian region, supported mainly by growing domestic demand, economic expansion continued in China and India. On the other hand, in Europe and the United States, a sense of stagnation was seen and the situation continued under which many customers were cautious about the future direction of the economy. The Japanese economy still remained in a difficult situation due to such factors as the effects of the Great East Japan Earthquake, the continuing strong yen and concerns about the spillover effects from uneasiness about the credit problems of Europe.

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 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 – 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 had been completed at the end of June 2011.

As a result, the consolidated business results for the first three quarters of FY 2012 show that net sales decreased by 1.3% (¥10,739 million) compared with the same fiscal period last year to ¥791,435 million. Compared with the performance of the same fiscal period last year, operating income increased by 3.2% (¥3,609 million) to ¥117,633 million, and ordinary income increased by 3.4% (¥4,094 million) to ¥125,429 million.

In addition, with regard to the net income for the first three quarters of FY 2012, it should be noted that the net income figure for the first three quarters 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 three quarters 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 14.3% (¥12,585 million) to ¥75,627 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. Shipments of Shin-Etsu PVC in The Netherlands continued to do well. On the other hand, due, in part, to the effects of production adjustments made by customers and an export price slump, a severe situation continued in this business in Japan.

As a result, compared with the first three quarters of FY2011, net sales for this business segment increased by 16.0% (¥34,024 million) to ¥247,094 million and operating income increased by 41.9% (¥6,013 million) to ¥20,365 million.

Silicones Business

With regard to the silicones business, during the first half of the fiscal year, sales in Japan continued to be firm, mainly in product applications areas such as the electric, electronics and cosmetic fields. Since entering into the second half of the fiscal year, the business was affected by poor performance in exports to Asia by some of our domestic customers. In our overseas silicones business, while functional silicone products remained strong, general-purpose products were affected by sluggish prices.

As a result, compared with the first three quarters of FY2011, net sales for this business segment decreased by 5.1% (¥5,461 million) to ¥102,113 million and operating income decreased by 5.2% (¥1,349 million) to ¥24,501 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in Japan the business continued to be firm, mainly in building and construction application products and industrial-use products. The business of SE Tylose in Germany continued to be firm due to the recovery of demand and the price increase in building and construction application products and coating application products. The business of Simcoa Operations in Australia continued to be firm due in part to the growth in the metallic silicon market.

As a result, compared with the first three quarters of FY2011, net sales for this business segment increased by 5.8% (¥3,555 million) to ¥64,931 million and operating income increased by 13.8% (¥1,275 million) to ¥10,502 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, during the early months of the first half of the fiscal year, we worked to achieve the early recovery of the Shirakawa Plant that was affected by the Great East Japan 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. From the latter part of the first half of the fiscal year, the business was affected by such factors as the reduced production by semiconductor device makers and inventory adjustment of wafers.

As a result, compared with the first three quarters of FY2011, net sales for this business segment decreased by 17.1% (¥37,515 million) to ¥181,374 million and operating income decreased by 2.4% (¥738 million) to ¥30,556 million.

Electronics & Functional Materials Business

With regard to rare earth magnets, shipments continued to do well for applications in hybrid automobiles and in energy-saving types of air conditioners and we went ahead with implementation of an increase in sales prices that was made necessary by the steeply rising prices of raw materials. The photoresist products remained strong, aided by the progress in semiconductor device miniaturization. The business of materials for high-luminance LED packaging was also firm. With regard to the synthetic quartz business, large-size photomask substrates used for LCDs continued to be firm. The optical fiber preform business was affected by the stoppage of operations at the Kashima Plant during the early part of the first half of the fiscal year due to the Great East Japan Earthquake; however, after the restoration of operations at the plant, shipments recovered.

As a result, compared with the first three quarters of FY2011, net sales for this business segment increased by 18.2% (¥19,298 million) to ¥125,080 million and operating income increased by 2.7% (¥733 million) to ¥27,964 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained in a severe situation due to such matters as the influence of the increase of touch panels that are being used for smart phones. The business of semiconductor wafer-related containers slowed in shipments due, in part, to the effects of semiconductor device production adjustments. The engineering business was firm.

As a result, compared with the first three quarters of FY2011, net sales for this business segment decreased by 25.8% (¥24,642 million) to ¥70,839 million and operating income decreased by 36.0% (¥2,078 million) to ¥3,699 million.

(2) Qualitative information regarding the consolidated business forecast

With regard to business prospects going forward, the future of the world economy is uncertain because of such factors as concerns about an economic slowdown due to the credit problems in Europe, and the business situation still does not allow for optimism. Under such circumstances, 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 each business stronger 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 December 31, 2011

	Millions of yen	
	March 31, 2011	December 31, 2011
ASSETS		
Current Assets:		
Cash and time deposits	244,002	231,700
Notes and accounts receivable-trade	270,499	276,362
Securities	116,714	46,846
Inventories	188,283	258,163
Other	70,962	84,638
Less: Allowance for doubtful accounts	(2,534)	(2,372)
Total current assets	887,927	895,338
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	252,229	323,864
Other, net	368,104	271,749
Total property, plant and equipment	620,334	595,614
Intangible fixed assets	14,020	12,622
Investments and other assets		
Investments and other assets	261,921	261,037
Less: Allowance for doubtful accounts	(38)	(18)
Total investments and other assets	261,883	261,019
Total fixed assets	896,238	869,256
TOTAL ASSETS	1,784,166	1,764,594

	Millions of yen	
	March 31, 2011	December 31, 2011
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	110,753	121,221
Short-term borrowings	8,712	13,059
Accrued income taxes	21,072	14,634
Provision for loss on disaster	24,401	6,718
Other allowances	2,433	2,132
Other	82,061	80,337
	249,434	238,104
Total current liabilities		
Long-term Liabilities:		
Long-term debt	5,548	1,229
Allowances	14,498	14,514
Other	45,255	47,874
	65,302	63,618
Total long-term liabilities		
TOTAL LIABILITIES		
	314,737	301,722
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,376,043	1,409,211
Less: Treasury stock, at cost	(40,917)	(40,923)
	1,582,724	1,615,885
Total stockholders' equity		
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	3,275	(2,120)
Deferred gains (losses) on hedges	895	546
Foreign currency translation adjustments	(160,087)	(192,186)
	(155,916)	(193,760)
Total accumulated other comprehensive income		
Share Subscription Rights	3,822	3,503
Minority Interests in Consolidated Subsidiaries	38,798	37,242
TOTAL NET ASSETS		
	1,469,429	1,462,872
TOTAL LIABILITIES AND NET ASSETS		
	1,784,166	1,764,594

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

Consolidated statements of income

For the first three quarters ended December 31, 2010 and 2011

	Millions of yen	
	April - December 2010	April - December 2011
Net sales	802,174	791,435
Cost of sales	609,151	598,118
Gross profit	193,023	193,316
Selling, general and administrative expenses	78,998	75,682
Operating income	114,024	117,633
Non-operating income:		
Interest income	2,182	2,283
Equity in earnings of affiliates	9,854	7,219
Other income	9,773	8,291
Total non-operating income	21,811	17,794
Non-operating expenses:		
Foreign exchange loss	12,350	8,443
Other expenses	2,150	1,554
Total non-operating expenses	14,501	9,998
Ordinary income	121,335	125,429
Extraordinary losses:		
Loss on disaster	-	5,312
Loss on write-down of investment securities	-	1,241
Total extraordinary losses	-	6,554
Income before income taxes	121,335	118,875
Income taxes-current	33,625	35,013
Income taxes for prior periods	(10,679)	-
Income taxes-deferred	8,999	7,776
Total income taxes	31,945	42,789
Income before minority interests	89,389	76,085
Minority interests in earnings of consolidated subsidiaries	1,177	457
Net income	88,212	75,627

Consolidated statements of comprehensive income

For the first three quarters ended December 31, 2010 and 2011

	Millions of Yen	
	April - December 2010	April - December 2011
Income before minority interests	89,389	76,085
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(4,019)	(5,523)
Deferred gains (losses) on hedges	(87)	(515)
Foreign currency translation adjustments	(43,317)	(31,204)
Share of other comprehensive income of associates accounted for by using the equity method	(2,388)	(1,733)
Total other comprehensive income	(49,812)	(38,976)
Comprehensive income	39,576	37,108
(Breakdown)		
Comprehensive income attributable to owners of the parent	39,663	37,784
Comprehensive income attributable to minority interests	(86)	(675)
	(86)	(675)

(3) Notes on premise of going concern

Not applicable

(4) Segment information

Information regarding sales and income/loss of reportable segments

1) For the first three quarters ended December 31, 2011 (From April 1, 2011 to December 31, 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	247,094	102,113	64,931	181,374	125,080	70,839	791,435	-	791,435
Intersegment sales	2,904	3,109	5,877	0	2,173	47,186	61,251	(61,251)	-
Total	249,998	105,222	70,809	181,375	127,254	118,025	852,686	(61,251)	791,435
Segment income (Operating income)	20,365	24,501	10,502	30,556	27,964	3,699	117,590	43	117,633

*Elimination of intersegment transactions

2) For the first three quarters ended December 31, 2010 (From April 1, 2010 to December 31, 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	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

(5) Notes on significant changes in stockholders' equity

Not applicable

Appendix: Quarterly operating results

(Billions of yen)

		Fiscal year 2010/4-2011/3					Fiscal year 2011/4-2012/3			
		1Q 10/4-6	2Q 7-9	3Q 10-12	4Q 11/1-3	Total	1Q 11/4-6	2Q 7-9	3Q 10-12	Total
Sales		259.7	272.9	269.6	256.1	1,058.3	250.0	271.4	270.0	791.4
PVC / Chlor-Alkali		70.4	76.1	66.6	70.4	283.5	67.5	92.6	87.0	247.1
Silicones		35.4	36.3	35.9	35.5	143.1	35.5	35.0	31.6	102.1
Specialty Chemicals		19.5	20.7	21.2	22.1	83.5	20.8	21.4	22.7	64.9
Semiconductor Silicon		69.2	73.2	76.5	64.9	283.8	66.2	58.0	57.2	181.4
Electronics & Functional Materials		33.8	35.8	36.2	35.6	141.4	36.0	40.5	48.6	125.1
Diversified		31.4	30.8	33.2	27.6	123.0	24.0	23.9	22.9	70.8
Operating Income		36.1	40.0	37.9	35.2	149.2	40.0	40.4	37.2	117.6
PVC / Chlor-Alkali		3.1	6.2	5.1	5.3	19.7	6.1	7.3	7.0	20.4
Silicones		9.1	8.4	8.3	8.3	34.1	9.2	8.2	7.1	24.5
Specialty Chemicals		3.0	3.0	3.2	3.7	12.9	3.5	3.5	3.5	10.5
Semiconductor Silicon		9.4	11.6	10.3	7.6	38.9	10.4	10.7	9.4	30.5
Electronics & Functional Materials		8.9	9.1	9.2	8.9	36.1	9.2	9.6	9.2	28.0
Diversified		2.3	1.9	1.6	1.5	7.3	1.7	1.0	1.0	3.7
Ordinary Income		39.0	42.2	40.1	39.0	160.3	42.2	42.1	41.1	125.4
Net Income		35.7	26.6	25.9	11.9	100.1	23.8	27.2	24.6	75.6
Depreciation and Amortization		21.3	24.0	24.0	24.4	93.7	19.1	20.5	22.2	61.8
Capital Expenditures		28.5	29.7	24.5	37.2	119.9	20.6	21.6	15.5	57.7
R&D Costs		8.5	9.5	8.1	11.2	37.3	8.3	9.6	9.0	26.9
Overseas Sales	Amount	159.8	176.8	171.2	164.4	672.2	158.9	181.1	177.0	517.0
	Ratio*	62%	65%	63%	64%	64%	64%	67%	66%	65%

*Note: % indicates ratio to total consolidated sales.