

Press Release

Consolidated Financial Results for the First Quarter Ended June 30, 2011

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



July 26, 2011

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: August 12, 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 Quarter Ended June 30, 2011

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

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April – June 2011	250,023	(3.7%)	40,001	10.7%	42,235	8.2%	23,837	(33.2%)
April – June 2010	259,715	36.6%	36,140	75.0%	39,029	80.5%	35,700	139.7%

(Note) Comprehensive income (Millions of yen) From April, 2011 to June, 2011: 40,031 [18.4%]

From April, 2010 to June, 2010: 33,812 [- %]

	Net income per share (in yen)	Diluted net income per share (in yen)
April – June 2011	56.14	-
April – June 2010	84.08	84.07

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
June 30, 2011	1,793,097	1,487,501	80.6%	3,402.67
March 31, 2011	1,784,166	1,469,429	80.0%	3,360.39

(Note) Stockholders' equity (Millions of yen) As of June 30, 2011: 1,444,758 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 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	-				
April 2011 – March 2012 (forecast)		50.00	-	50.00	100.00

(Note) Revision of the latest forecast of cash dividends : Yes

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)
First half	520,000	(2.4%)	77,000	1.1%	82,000	1.0%	50,000	(19.8%)	117.76
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 : Yes

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 quarter ended June 30, 2011 : No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first quarter ended June 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>June 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	7,511,247	7,510,657
	<u>April – June 2011</u>	<u>April – June 2010</u>
Weighted-average number of shares outstanding over period	424,595,705	424,601,031

(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) Notes on premise of going concern.....	9
(4) Segment information	9
(5) Notes on significant changes in stockholders' equity	9

1. Qualitative Information Regarding Quarterly Results

(1) Qualitative information regarding the consolidated operating results

With regard to the world economy during the first quarter of FY 2012 (April 1, 2011 to June 30, 2011), in the Asian region the trend towards economic expansion continued, centering on China. In Europe and the United States, there was a gradual economic recovery; however, many customers remained cautious about the economy. Due to the effects of the Great East Japan Earthquake that occurred in March of this year, the situation of the Japanese economy still remained in a severe condition, although there was some movement towards a gradual recovery.

Under these circumstances, the Shin-Etsu Group worked to strengthen its relationships with its customers worldwide and focused on expanding its sales. At the same time, we created a stronger business foundation, carried out streamlining measures and promoted the development of new products. Although Shin-Etsu Chemical's Kashima Plant and Shin-Etsu Handotai's Shirakawa Plant had to stop their operations 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 its affected production bases was completed at the end of June.

As a result, the consolidated business results for the first quarter of FY 2012 show that net sales decreased by 3.7% (¥9,692 million) compared with the same fiscal period last year to ¥250,023 million. Compared with the performance of the same fiscal period last year, operating income increased by 10.7% (¥3,861 million) to ¥40,001 million, and ordinary income increased by 8.2% (¥3,206 million) to ¥42,235 million.

In addition, with regard to the net income for the first quarter of FY 2012, it should be noted that the net income figure for the first quarter 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 quarter 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 33.2% (¥11,863 million) to ¥23,837 million.

PVC/Chlor-Alkali Business

With regard to PVC, while the long-term slump in the U.S. housing market persisted, Shintech, Inc. in the U.S. continued a high level of shipments by increasing sales to its worldwide customers, and it increased its business performance. Shin-Etsu PVC in The Netherlands maintained decent shipments. On the other hand, in Japan, a severe situation continued due in part to the effects of the operation stoppage of the Kashima Plant caused by the Great East Japan Earthquake.

As a result, compared with the first quarter of FY2011, net sales for this business segment decreased by 4.2% (¥2,932 million) to ¥67,457 million and operating income increased by 95.4% (¥2,958 million) to ¥6,059 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. With electric power usage restriction measures coming into effect during this summer, there was some increase in demand attributable to customers' moving forward their production

schedules. In our overseas silicones business, functional silicone products remained strong; however, on the other hand, general-purpose products were affected by sluggish market prices.

As a result, compared with the first quarter of FY2011, net sales for this business segment increased by 0.4% (¥125 million) to ¥35,525 million and operating income increased by 1.0% (¥87 million) to ¥9,174 million.

Specialty Chemicals Business

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

As a result, compared with the first quarter of FY2011, net sales for this business segment increased by 6.5% (¥1,263 million) to ¥20,769 million and operating income increased by 16.2% (¥485 million) to ¥3,483 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, the business was affected by the impact of the Great East Japan Earthquake on the Shirakawa Plant. As a countermeasure, Shin-Etsu increased its production volume at its other global production bases and made shipments from its inventory stockpile. At the same time, as a result of our concerted efforts to achieve restoration of the Shirakawa Plant, the production capacity of the plant recovered to the level prior to the disaster by the end of June.

As a result, compared with the first quarter of FY2011, net sales for this business segment decreased by 4.3% (¥2,941 million) to ¥66,245 million and operating income increased by 10.8% (¥1,017 million) to ¥10,444 million.

Electronics & Functional Materials Business

With regard to rare earth magnets, shipments continued to do well for applications in energy-efficient types of air conditioners and for motors used for factory automation applications. Nevertheless, the rare earth magnets business was affected by the drastic increases in raw material prices. The photoresist products business remained strong, aided by progress in device miniaturization. The business of materials for the high-luminance LED packaging greatly increased. With regard to the synthetic quartz business, shipments of large-size photomask substrates used for LCDs was strong; however, the optical fiber preform business was affected by the stoppage of operations at the Kashima Plant due to the Great East Japan Earthquake.

As a result, compared with the first quarter of FY2011, net sales for this business segment increased by 6.6% (¥2,212 million) to ¥35,982 million and operating income increased by 3.7% (¥331 million) to ¥9,208 million.

Diversified Business

Although Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained weak mainly due to the increase of touch panels that are being used for smartphones, the business of semiconductor wafer-related containers continued to be on a recovery track. The engineering business was weak.

As a result, compared with the first quarter of FY2011, net sales for this business segment decreased by 23.6% (¥7,420 million) to ¥24,042 million and operating income decreased by 27.3% (¥638 million) to ¥1,703 million.

(2) Qualitative information regarding the consolidated business forecast

With regard to business prospects going forward, although there is an expectation that the trend towards a recovery in the world economy will continue, the business situation still does not allow for optimism. Moreover, in Japan there are also restrictions on electrical power usage due to the effects of the Great East Japan Earthquake, and an uncertain future prospect is forecasted.

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 strengthening our technologies, enhancing product quality and striving to stably secure raw materials.

The forecast of consolidated operating performance is as mentioned below.

With regard to dividends, the forecast is ¥50 per share for both interim and year-end dividends, the same amount as for the corresponding period of the previous fiscal year. The forecast of the total annual dividends for FY 2012 is ¥100 per share, the same amount as that for the previous fiscal year.

The forecast of consolidated operating performance and dividends were released today in "Notice Regarding Operating Performance and Dividend Forecasts" as well.

	(Millions of yen)								
	Net sales		Operating income		Ordinary income		Net income		Net income per share (in yen)
First half	520,000	(2.4%)	77,000	1.1%	82,000	1.0%	50,000	(19.8%)	117.76
Fiscal year	1,065,000	0.6%	155,000	3.9%	165,000	2.9%	102,000	1.9%	240.23

Percentage figures indicate increase (decrease) over previous corresponding period.

(Note)

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.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

As of March 31 and June 30, 2011

	Millions of yen	
	March 31, 2011	June 30, 2011
ASSETS		
Current Assets:		
Cash and time deposits	244,002	261,583
Notes and accounts receivable-trade	270,499	251,139
Securities	116,714	97,888
Inventories	188,283	208,361
Other	70,962	65,239
Less: Allowance for doubtful accounts	(2,534)	(2,413)
Total current assets	887,927	881,799
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	252,229	257,576
Other, net	368,104	375,931
Total property, plant and equipment	620,334	633,508
Intangible fixed assets	14,020	14,580
Investments and other assets		
Investments and other assets	261,921	263,247
Less: Allowance for doubtful accounts	(38)	(37)
Total investments and other assets	261,883	263,209
Total fixed assets	896,238	911,298
TOTAL ASSETS	1,784,166	1,793,097

	Millions of yen	
	March 31, 2011	June 30, 2011
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	110,753	111,667
Short-term borrowings	8,712	9,027
Accrued income taxes	21,072	8,537
Provision for loss on disaster	24,401	19,099
Other allowances	2,433	2,035
Other	82,061	86,684
Total current liabilities	249,434	237,052
Long-term Liabilities:		
Long-term debt	5,548	5,564
Allowances	14,498	15,132
Other	45,255	47,845
Total long-term liabilities	65,302	68,542
TOTAL LIABILITIES	314,737	305,595
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,376,043	1,378,651
Less: Treasury stock, at cost	(40,917)	(40,919)
Total stockholders' equity	1,582,724	1,585,329
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	3,275	1,641
Deferred gains (losses) on hedges	895	1,004
Foreign currency translation adjustments	(160,087)	(143,216)
Total accumulated other comprehensive income	(155,916)	(140,571)
Share Subscription Rights	3,822	3,395
Minority Interests in Consolidated Subsidiaries	38,798	39,347
TOTAL NET ASSETS	1,469,429	1,487,501
TOTAL LIABILITIES AND NET ASSETS	1,784,166	1,793,097

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

Consolidated statements of income

For the first quarter ended June 30, 2010 and 2011

	Millions of yen	
	April - June 2010	April - June 2011
Net sales	259,715	250,023
Cost of sales	198,609	185,620
Gross profit	61,106	64,402
Selling, general and administrative expenses	24,966	24,400
Operating income	36,140	40,001
Non-operating income:		
Interest income	727	756
Equity in earnings of affiliates	3,874	2,131
Other income	2,916	3,304
Total non-operating income	7,518	6,192
Non-operating expenses:		
Foreign exchange loss	3,920	3,581
Other expenses	709	377
Total non-operating expenses	4,629	3,959
Ordinary income	39,029	42,235
Extraordinary loss:		
Loss on disaster	-	5,307
Total extraordinary loss	-	5,307
Income before income taxes	39,029	36,927
Income taxes-current	9,455	9,804
Income taxes for prior periods	(10,663)	-
Income taxes-deferred	4,082	2,995
Total income taxes	2,873	12,799
Income before minority interests	36,155	24,127
Minority interests in earnings of consolidated subsidiaries	455	289
Net income	35,700	23,837

Consolidated statements of comprehensive income
For the first quarter ended June 30, 2010 and 2011

	Millions of Yen	
	April - June 2010	April - June 2011
Income before minority interests	36,155	24,127
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(5,718)	(1,822)
Deferred gains (losses) on hedges	(139)	(33)
Foreign currency translation adjustments	2,806	16,808
Share of other comprehensive income of associates accounted for by using the equity method	708	950
Total other comprehensive income	(2,343)	15,903
Comprehensive income	33,812	40,031
(Breakdown)		
Comprehensive income attributable to owners of the parent	33,283	39,182
Comprehensive income attributable to minority interests	528	848

(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 quarter ended June 30, 2011 (From April 1, 2011 to June 30, 2011)

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	April – June 2011								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	67,457	35,525	20,769	66,245	35,982	24,042	250,023	-	250,023
Intersegment sales	1,185	1,148	2,053	0	816	15,779	20,984	(20,984)	-
Total	68,642	36,674	22,823	66,246	36,799	39,821	271,007	(20,984)	250,023
Segment income (Operating income)	6,059	9,174	3,483	10,444	9,208	1,703	40,074	(73)	40,001

*Elimination of intersegment transactions

2) For the first quarter ended June 30, 2010 (From April 1, 2010 to June 30, 2010)

	Millions of yen							Adjustment*	Figures in consolidated statement of income
	April – June 2010								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	70,389	35,400	19,506	69,186	33,770	31,462	259,715	-	259,715
Intersegment sales	4,183	1,042	1,565	0	679	17,199	24,670	(24,670)	-
Total	74,573	36,442	21,071	69,187	34,449	48,662	284,386	(24,670)	259,715
Segment income (Operating income)	3,101	9,087	2,998	9,427	8,877	2,341	35,834	306	36,140

*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