

Press Release

Consolidated Financial Results for the First Quarter Ended June 30, 2010

(JP GAAP)



Shin-Etsu Chemical Co., Ltd.

July 22, 2010

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

Listing Stock Exchange: Tokyo, Osaka and Nagoya

Representative: Shunzo Mori (Mr.) Representative Director/President

Personnel to contact: Toshiyuki Kasahara (Mr.)

Director, General Manager of Finance & Accounting Department

Tel: +81-3-3246-5051

Date of the filing of the quarterly consolidated financial statements: August 13, 2010

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, 2010

(From April 1, 2010 to June 30, 2010)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April – June 2010	259,715	36.6%	36,140	75.0%	39,029	80.5%	35,700	139.7%
April – June 2009	190,084	(44.2%)	20,647	(72.8%)	21,617	(72.6%)	14,896	(71.0%)

	Net income per share (in yen)	Diluted net income per share (in yen)
April – June 2010	84.08	84.07
April – June 2009	35.09	35.09

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
June 30, 2010	1,768,087	1,486,632	81.6%	3,398.88
March 31, 2010	1,769,139	1,474,212	80.9%	3,370.56

(Note) Stockholders' equity (Millions of yen) As of June 30, 2010 : 1,443,167 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	-				
April 2010 – March 2011 (forecast)		50.00	-	50.00	100.00

(Note) Revision of cash dividend forecast during this period: Yes

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)
First half	520,000	24.6%	74,000	39.8%	80,000	43.3%	60,000	68.9%	141.31
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: 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 (for further details, please see “2. Other Information” on page 5 of attached documents)

(1) Changes in significant subsidiaries during this period: No

Newly consolidated: -

Excluded from the scope of consolidation: -

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during this period.

(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)

	June 30, 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	7,505,972	7,505,054
	April – June 2010	April – June 2009
Weighted-average number of shares outstanding over period (accumulated)	424,601,031	424,489,389

(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 financial statement review procedures based on the Financial Instruments and Exchange Law, have not been completed.

(Reference) Forecast of Non-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	600,000	8.3%	76,000	7.5%	80,000	1.9%	59,000	13.6%	138.95

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

(Note)

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(Attached Documents)

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1. Qualitative Information Regarding These Quarterly Results

(1) Qualitative information regarding the consolidated operating results

With regard to the world economy, during the first quarter of FY 2011 (April 1, 2010 to June 30, 2010), in the Asian region, centering on China, there has been movement towards economic recovery. However, in Europe and the U.S., a delay in recovery became apparent, and the severe situation continued, as seen in such circumstances as the fact that unemployment rates remained at a high level. In the Japanese economy as well, although exports gradually increased and there was movement towards a recovery in manufacturing and personal consumption, still the severe situation continued, as can be seen in such data as the unemployment rate being at a high level.

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 quarter of FY 2011 show that net sales increased by 36.6% (¥69,631 million) compared with the same fiscal period last year to ¥259,715 million. Compared with the performance of the same fiscal period last year, operating income increased by 75.0% (¥15,493 million) to ¥36,140 million, and ordinary income increased by 80.5% (¥17,412 million) to ¥39,029 million.

Net income of the first quarter of FY 2011 became ¥35,700 million, an increase of 139.7% (¥20,804 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

Although it was affected by the long-term sluggish demand of the U.S. housing market, Shintech Inc. in the U.S. strove to expand its sales to its customers worldwide and continued a high level of shipments. Shin-Etsu PVC in the Netherlands also had strong shipments; however, it was affected by the rising prices of raw materials. With regard to this business in Japan, although a recovery in domestic shipments was seen, exports remained weak due to a decline in overseas markets, and on top of that, this fiscal quarter coincided with the planned maintenance turnaround of industrial complex. On the whole, a severe situation continued in Japan.

As a result, net sales for this business segment were ¥70,389 million and operating income was ¥3,101 million.

Silicones Business

Sales in Japan recovered in wide range of areas such as electric, electronics, and automobile applications, and this business continued good shipments. Overseas business also remained firm with the recovery of demand centering mainly in the Asian region.

As a result, net sales for this business segment were ¥35,400 million and operating income was ¥9,087 million.

Specialty Chemicals Business

With regard to sales of cellulose derivatives, in Japan this business was strong for pharmaceutical-use products, and industrial-use products also saw a recovery in such applications as automobiles. For construction applications, there was no sense of recovery in the market, and the severe business situation continued. The performance of SE Tylose in Germany also remained weak, as it was affected by the slow demand for construction materials.

As a result, net sales for this business segment were ¥19,506 million and operating income was ¥2,998 million.

Semiconductor Silicon Business

With demand for such digital products as PCs and mobile phones as a driving force, demand for semiconductor silicon products recovered in diverse application fields, such as digital home appliances and automobiles, and as a result, on the whole, demand in the silicon wafer business continued to be strong, starting with 300mm wafers.

As a result, net sales for this business segment were ¥69,186 million and operating income was ¥9,427 million.

Electronics & Functional Materials Business

With regard to rare earth magnets, the demand for applications in hard disk drives for PCs remained at a high level, and demand for applications in motors of hybrid cars and in motors for general industrial-use was good. The business of coating material for high-luminance LEDs was firm. With regard to photoresist products, semiconductor device makers are continuing steady production, and sales of these products remained strong. With regard to synthetic quartz – although sales of optical fiber preform were affected by the planned maintenance turnaround of industrial complex – with stable demand, sales remained strong. On the other hand, with regard to large-size photomask substrates used for LCDs, although shipments were firm, because of intensifying price competition the severe situation continued.

As a result, net sales for this business segment were ¥33,770 million and operating income was ¥8,877 million.

Diversified Business

Although it was affected by the low pricing of its keypads for mobile phones, Shin-Etsu Polymer Co., Ltd.'s sales of packaging for semiconductor wafers were in a recovery trend. The other engineering business was weak during this first quarter.

As a result, net sales for this business segment were ¥31,462 million and operating income was ¥2,341 million.

(Note)

Starting from the first quarter of FY 2011, we have changed the configuration of our business segments. Therefore, the figures for the comparison of this quarter's results with those of the same period in the previous fiscal year are not recorded.

(2) Qualitative information regarding the consolidated business forecast

With regard to business prospects going forward, although there is a recovery trend in parts of the world economy, the situation still does 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, and we expect that the severe situation will continue in the future.

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 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 2011 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	24.6%	74,000	39.8%	80,000	43.3%	60,000	68.9%	141.31
Fiscal year	1,040,000	13.4%	148,000	26.3%	160,000	26.0%	110,000	31.2%	259.07

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. 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 June 30 and March 31, 2010

	Millions of yen	
	June 30, 2010	March 31, 2010
ASSETS		
Current Assets:		
Cash and time deposits	212,259	209,046
Notes and accounts receivable-trade	281,729	273,949
Securities	110,983	109,761
Inventories	176,115	183,553
Other	56,721	69,203
Less: Allowance for doubtful accounts	(2,830)	(2,943)
Total current assets	834,978	842,571
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment	262,550	264,014
Other	392,909	382,118
Total property, plant and equipment	655,459	646,133
Intangible fixed assets	15,904	17,055
Investments and other assets		
Investments and other assets	261,793	263,391
Less: Allowance for doubtful accounts	(47)	(13)
Total investments and other assets	261,745	263,378
Total fixed assets	933,108	926,568
TOTAL ASSETS	1,768,087	1,769,139

	Millions of yen	
	June 30, 2010	March 31, 2010
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	103,658	93,294
Short-term borrowings	12,107	11,866
Accrued income taxes	9,351	18,213
Allowances	1,798	2,441
Other	87,812	104,309
	<u>214,729</u>	<u>230,124</u>
Total current liabilities		
Long-term Liabilities:		
Long-term debt	7,942	7,884
Allowances	13,542	13,046
Other	45,240	43,870
	<u>66,725</u>	<u>64,802</u>
Total long-term liabilities		
TOTAL LIABILITIES	<u>281,454</u>	<u>294,926</u>
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,332,855	1,318,413
Less: Treasury stock, at cost	(40,896)	(40,892)
	<u>1,539,555</u>	<u>1,525,118</u>
Total stockholders' equity		
Valuation and Translation Adjustments:		
Unrealized gains (losses) on available-for-sale securities	1,312	6,717
Deferred gains (losses) on derivatives under hedge accounting	416	517
Foreign currency translation adjustments	(98,117)	(101,207)
	<u>(96,388)</u>	<u>(93,972)</u>
Total valuation and translation adjustments		
Share Subscription Rights	3,571	3,648
Minority Interests in Consolidated Subsidiaries	39,894	39,417
TOTAL NET ASSETS	<u>1,486,632</u>	<u>1,474,212</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1,768,087</u>	<u>1,769,139</u>

(2) Consolidated statements of income

For the first quarter ended June 30, 2009 and 2010

	Millions of yen	
	April - June 2009	April - June 2010
Net sales	190,084	259,715
Cost of sales	146,139	198,609
Gross profit	43,944	61,106
Selling, general and administrative expenses	23,297	24,966
Operating income	20,647	36,140
Non-operating income:		
Interest income	1,291	727
Equity in earnings of affiliates	1,406	3,874
Other income	1,354	2,916
Total non-operating income	4,052	7,518
Non-operating expenses:		
Foreign exchange loss	-	3,920
Other expenses	3,082	709
Total non-operating expenses	3,082	4,629
Ordinary income	21,617	39,029
Income before income taxes	21,617	39,029
Income taxes-current	2,261	9,455
Income taxes for prior periods	-	(10,663)
Income taxes-deferred	4,527	4,082
Total income taxes	6,789	2,873
Income before minority interests	-	36,155
Minority interests in earnings (losses) of consolidated subsidiaries	(67)	455
Net income	14,896	35,700

(3) Consolidated statements of cash flows

For the first quarter ended June 30, 2009 and 2010

	Millions of yen	
	April - June 2009	April - June 2010
1. Cash flows from operating activities		
Income before income taxes	21,617	39,029
Depreciation and amortization	20,715	21,294
Interest and dividend income	(1,735)	(1,197)
Equity in (earnings) losses of affiliates	(1,406)	(3,874)
(Increase) decrease in notes and accounts receivable	1,598	(7,008)
(Increase) decrease in inventories	14,214	8,061
Increase (decrease) in notes and accounts payable	(3,933)	9,998
Other, net	(7,284)	(1,539)
Subtotal	43,787	64,763
Proceeds from interest and dividends	1,825	1,407
Payment of interest	(160)	(29)
Payment of income taxes	(4,401)	(17,393)
Income taxes refund	-	7,604
Net cash provided by operating activities	41,050	56,352
2. Cash flows from investing activities		
Net (increase) decrease in marketable securities	6,735	(4,125)
Purchase of property, plant and equipment	(39,434)	(34,128)
Purchase of investment securities	(1,091)	(1,056)
Proceeds from sales and redemption of investment securities	183	363
Other, net	(7,471)	(1,074)
Net cash used for investing activities	(41,078)	(40,020)
3. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,821	39
Repayment of long-term debt	(4,399)	(93)
Cash dividends paid	(21,223)	(21,230)
Other, net	(118)	(199)
Net cash used for financing activities	(23,920)	(21,482)
4. Effect of exchange rate change on cash and cash equivalents	3,151	1,588
5. Net increase (decrease) in cash and cash equivalents	(20,795)	(3,562)
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	230,249	267,370

(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 segments

	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

2) Information regarding goodwill and impairment loss on fixed assets by reportable segments

Not Applicable

(Reference)

In line with the new business segments, the business segment information for the first quarter of the previous fiscal year is reclassified as follows:

	Millions of yen								
	April – June 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	46,448	24,850	17,623	53,215	24,121	23,824	190,084	-	190,084
Intersegment sales	752	848	895	40	379	22,789	25,705	(25,705)	-
Total	47,200	25,698	18,519	53,256	24,500	46,614	215,790	(25,705)	190,084
Segment income (Operating income)	4,879	3,224	2,958	4,107	5,052	533	20,755	(108)	20,647

*Elimination of intersegment transactions

(6) Notes on significant changes in stockholders' equity

Not applicable