

Press Release

Financial Results for the First Quarter Ended June 30, 2008



Shin-Etsu Chemical Co., Ltd.

July 22, 2008

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

Listing stock exchange: Tokyo, Osaka and Nagoya

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

Percentage figures indicate changes over the previous corresponding period.

(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.

1. Consolidated operating performance for the first quarter ended June 30, 2008

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

(1) Results of consolidated operations

(Millions of Yen)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|-------------------|-----------|-------|------------------|-------|-----------------|-------|------------|-------|
| April - June 2008 | 340,770 | - | 75,808 | - | 79,015 | - | 51,418 | - |
| April - June 2007 | 342,419 | 10.6% | 69,533 | 21.3% | 71,541 | 23.3% | 45,592 | 28.1% |

| | Net income per share (in Yen) | Diluted net income per share (in Yen) | Ratio of net income to stockholders' equity(p.a.) |
|-------------------|----------------------------------|------------------------------------------|---------------------------------------------------------|
| April - June 2008 | 119.51 | 119.48 | 14.5% |
| April - June 2007 | 105.85 | 105.74 | 13.7% |

(2) Consolidated financial position

(Millions of Yen)

| | Total assets | Net assets | Stockholders' equity ratio | Net assets per share (in Yen) |
|----------------|--------------|------------|-------------------------------|----------------------------------|
| June 30, 2008 | 1,816,657 | 1,449,485 | 77.4% | 3,268.18 |
| March 31, 2008 | 1,918,544 | 1,483,669 | 75.0% | 3,344.17 |

(Note) Stockholders' equity (Millions of Yen) As of June 30, 2008: 1,406,165 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 (forecast) | - | 50.00 | - | 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) |
|-------------|-----------|------|------------------|------|-----------------|------|------------|------|----------------------------------|
| First half | 690,000 | - | 151,000 | - | 157,000 | - | 98,000 | - | 227.78 |
| Fiscal year | 1,400,000 | 1.7% | 307,000 | 6.9% | 320,000 | 6.7% | 200,000 | 8.9% | 464.86 |

(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)

| | June 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 | 1,846,930 | 1,865,726 |
| | April - June 2008 | April - June 2007 |
| Weighted-average number of shares outstanding over period | 430,256,849 | 430,722,485 |

(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) The company is not revising its business forecast, which was announced on April 28, 2008.
- 3) Effective from the fiscal year ending March 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 quarter (April 1, 2008 to June 30, 2008) of this fiscal year, the Japanese economy was in an economic standstill characterized by a decrease in corporate earnings due to the effects of the sharp increase in crude oil prices and the slowdown of the U.S. economy, as well as weakness in consumer spending and facility investment.

Under these circumstances, along with aggressively pursuing its sales activities to its wide range of worldwide customers, the Shin-Etsu Group vigorously implemented increases in production capacity and worked on the development and commercialization of new products. At the same time, the Group made intensive all-out efforts to thoroughly conduct its business operations with the utmost priority put on assuring safety and environmental conservation.

(2). Business segment overview

Organic and inorganic chemicals

PVC

In the PVC business, while demand decreased due to the sluggishness of housing construction in the U.S. domestic market and other companies in the same business in the U.S. experienced a large decrease in profit and remained in red figures, the business performance of Shintech Inc. in the U.S. was strong, as the company continued full operation and focused on exports in addition to domestic sales. Shin-Etsu PVC in The Netherlands also continued firm sales. On the other hand, the PVC business in Japan was weak due to softness in demand as well as the impact of the sharp rise in the prices of raw materials.

Silicones

In Japan, efforts were made not only to expand sales of general-purpose silicone products but also to strongly promote sales of specialized product applications such as for onboard automotive equipment, information equipment and cosmetics, and Shin-Etsu implemented an upward price adjustment as a result of the continued sharp rise in raw material prices. As a consequence, the silicone business continued to be strong. Sales of Shin-Etsu Polymer's keypads for mobile phones were weak due to a decline in unit price.

Others

With regard to the cellulose derivatives business, sales in Japan remained steady, mainly for pharmaceutical applications. In addition, SE Tylose in Germany also did well. Japan VAM & Poval continued to have steady shipments and SIMCOA in Australia also did well.

Electronics materials

Semiconductor silicon

Steady shipments continued for 300mm silicon wafers.

Others

Sales of rare earth magnets decreased, influenced by inventory adjustment of hard disk drives. Sales of photoresists were strong in line with the trend toward miniaturization of semiconductor devices, and the organic materials for the electronics industry business remained firm.

Functional materials and others

Synthetic quartz

Sales increased for preform for optical fiber, but sales of large-size photomask substrates used for LCDs decreased greatly due to a sluggish market.

Rare earth magnets for general industrial use and other functional materials

Rare earth magnets for general industrial use did well with the expansion of demand in application areas where energy-saving and reduction in weight are required such as air-conditioners, automobiles and robots. Moreover, shipments of liquid fluoroelastomers and pericles did well.

2 Qualitative information regarding the consolidated financial position

As of June 30, 2008, total assets decreased by ¥101,887 million compared to that as of March 31, 2008 to ¥1,816,657 million. Cash and time deposits increased due to proceeds from sales and redemption of securities. On the other hand, total assets decreased due to fluctuations in exchange rates affecting overseas consolidated subsidiaries and affiliates.

Total liabilities decreased by ¥67,704 million, compared to that as of March 31, 2008 to 367,171 million. This was mainly due to a decrease in accrued income taxes resulting from the payment of such taxes.

Retained earnings increased due to ¥51,418 million in net income, however total net assets decreased by ¥34,184 million compared to that as of March 31, 2008 to ¥1,449,485 million. This was mainly due to a decrease of Valuation and translation adjustments. The stockholders' equity ratio increased by 2.4 percentage points to 77.4% compared to that as of March 31, 2008.

3. Qualitative information regarding the consolidated business forecast

Regarding Shin-Etsu's business forecast, the Japanese economy continues in a standstill with weakened corporate earnings, and the trend of the U.S. economy and the sharp rises in raw material prices are matters of concern. Going forward, we anticipate a severe business situation.

The Shin-Etsu Group will continue to make strong sales efforts in the areas in which demand is robust, and at the same time, we will make investments that will enable us to readily meet future market needs. Furthermore, we will strive to build a strong business foundation through such means as endeavoring to secure multiple sources of raw material supplies and implementing timely adjustments of product prices to reflect the recent sharp rises in the price of raw materials.

The company is not revising 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 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 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 ¥519 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 ¥210 million, Ordinary income and Income before income taxes increased by ¥299 million respectively.

5. Consolidated financial statements

5-1. Comparative consolidated balance sheets

As of June 30 and March 31, 2008

| | Millions of Yen | | |
|--------------------------------------|-------------------------|--------------------------|---------------------------------|
| | June 30, 2008 (A) | March 31, 2008 (B) | Increase (Decrease) (A-B) |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and time deposits | 245,935 | 217,265 | 28,670 |
| Notes and accounts receivable-trade | 302,945 | 313,943 | (10,998) |
| Securities | 121,720 | 184,519 | (62,799) |
| Inventories | 191,453 | 204,336 | (12,883) |
| Other | 66,943 | 97,260 | (30,317) |
| | 928,998 | 1,017,325 | (88,327) |
| Fixed Assets: | | | |
| Property, plant and equipment | | | |
| Machinery and equipment | 225,327 | 240,671 | (15,344) |
| Other | 408,362 | 413,972 | (5,610) |
| | 633,689 | 654,643 | (20,954) |
| Intangible fixed assets | | | |
| Goodwill | 21,218 | 22,803 | (1,585) |
| Other | 3,048 | 3,055 | (7) |
| | 24,267 | 25,859 | (1,592) |
| Investments and other assets | | | |
| Investment securities | 155,143 | 150,492 | 4,651 |
| Other | 74,558 | 70,224 | 4,334 |
| | 229,701 | 220,716 | 8,985 |
| | 887,658 | 901,219 | (13,561) |
| TOTAL ASSETS | 1,816,657 | 1,918,544 | (101,887) |

| | Millions of Yen | | |
|----------------------------------------------------|-------------------------|--------------------------|---------------------------------|
| | June 30, 2008 (A) | March 31, 2008 (B) | Increase (Decrease) (A-B) |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Notes and accounts payable-trade | 134,718 | 149,304 | (14,586) |
| Short-term borrowings | 8,490 | 11,826 | (3,336) |
| Accrued income taxes | 22,467 | 39,463 | (16,996) |
| Allowances | 1,834 | 3,694 | (1,860) |
| Other | 146,450 | 172,359 | (25,909) |
| Total current liabilities | 313,960 | 376,648 | (62,688) |
| Long-term Liabilities: | | | |
| Long-term debt | 19,328 | 22,132 | (2,804) |
| Allowances | 11,190 | 13,784 | (2,594) |
| Other | 22,692 | 22,309 | 383 |
| Total long-term liabilities | 53,211 | 58,226 | (5,015) |
| TOTAL LIABILITIES | 367,171 | 434,875 | (67,704) |
| NET ASSETS | | | |
| Stockholders' Equity: | | | |
| Common stock | 119,419 | 119,419 | - |
| Additional paid-in capital | 128,177 | 128,177 | - |
| Retained earnings | 1,194,353 | 1,163,680 | 30,673 |
| Less: Treasury stock, at cost | (12,094) | (12,217) | 123 |
| Total Stockholders' Equity | 1,429,856 | 1,399,059 | 30,797 |
| Valuation and translation adjustments | (23,690) | 39,737 | (63,427) |
| Share subscription rights | 1,614 | 1,614 | - |
| Minority interests in consolidated subsidiaries | 41,705 | 43,257 | (1,552) |
| TOTAL NET ASSETS | 1,449,485 | 1,483,669 | (34,184) |
| TOTAL LIABILITIES AND NET ASSETS | 1,816,657 | 1,918,544 | (101,887) |

5-2. Consolidated statement of income

For the first quarter ended June 30, 2008

| | <u>Millions of Yen</u> |
|-------------------------------------------------------------|--------------------------|
| | <u>April – June 2008</u> |
| Net sales | 340,770 |
| Cost of sales | 235,166 |
| | <hr/> |
| Gross profit | 105,604 |
| | |
| Selling, general and administrative expenses | 29,795 |
| | <hr/> |
| Operating income | 75,808 |
| | |
| Non-operating income: | |
| Interest income | 1,752 |
| Equity in earnings of affiliates | 2,581 |
| Other income | 1,892 |
| | <hr/> |
| Total non-operating income | 6,226 |
| | |
| Non-operating expenses | 3,019 |
| | <hr/> |
| Ordinary income | 79,015 |
| | <hr/> |
| Income before income taxes | 79,015 |
| | |
| Income taxes-current | 20,313 |
| Income taxes-deferred | 6,745 |
| | <hr/> |
| Total income taxes | 27,059 |
| | |
| Minority interests in earnings of consolidated subsidiaries | 537 |
| | <hr/> |
| Net income | 51,418 |
| | <hr/> |

5-3. Consolidated statement of cash flows

For the first quarter ended June 30, 2008

| | Millions of Yen |
|-------------------------------------------------------------------|-------------------|
| | April – June 2008 |
| 1. Cash flows from operating activities | |
| Income before income taxes | 79,015 |
| Depreciation and amortization | 28,392 |
| Interest and dividend income | (2,336) |
| Equity in earnings of affiliates | (2,581) |
| Increase in notes and accounts receivable | (4,997) |
| Decrease in inventories | 8,205 |
| Decrease in notes and accounts payable | (13,679) |
| Other, net | 20,820 |
| Subtotal | 112,839 |
| Proceeds from interest and dividends | 3,027 |
| Payment of interest | (392) |
| Payment of income taxes | (37,429) |
| Net cash provided by operating activities | 78,044 |
| 2. Cash flows from investing activities | |
| Purchase of property, plant and equipment | (61,897) |
| Purchase of investment securities | (6,682) |
| Proceeds from sales of investment securities | 22,579 |
| Other, net | (3,413) |
| Net cash used for investing activities | (49,413) |
| 3. Cash flows from financing activities | |
| Net decrease in short-term borrowings | (2,354) |
| Repayment of long-term debt | (1,220) |
| Cash dividends paid | (21,512) |
| Other, net | (222) |
| Net cash used for financing activities | (25,310) |
| 4. Effect of exchange rate change on cash and cash equivalents | (13,111) |
| 5. Net decrease in cash and cash equivalents | (9,790) |
| 6. Cash and cash equivalents at beginning of period | 301,619 |
| 7. Cash and cash equivalents at end of period | 291,828 |

5-4. Notes on premise of going concern

Not applicable.

5-5. Segment information

(1). Business segment information

| | Millions of Yen | | | | | |
|----------------------------|---------------------------------|-----------------------|---------------------------------|---------|--------------------------|--------------------|
| | April - June 2008 | | | | | |
| | Organic and inorganic chemicals | Electronics materials | Functional materials and others | Total | Elimination or corporate | Consolidated total |
| Sales to outside customers | 171,594 | 141,856 | 27,319 | 340,770 | - | 340,770 |
| Intersegment sales | 3,746 | 1,013 | 36,666 | 41,427 | (41,427) | - |
| Total | 175,340 | 142,870 | 63,986 | 382,197 | (41,427) | 340,770 |
| Operating income | 27,489 | 41,099 | 7,459 | 76,048 | (239) | 75,808 |

(2). Geographic segment information

| | Millions of Yen | | | | | | |
|----------------------------|-------------------|---------------|--------------|--------|---------|--------------------------|--------------------|
| | April - June 2008 | | | | | | |
| | Japan | North America | Asia/Oceania | Europe | Total | Elimination or corporate | Consolidated total |
| Sales to outside customers | 168,956 | 77,202 | 52,601 | 42,009 | 340,770 | - | 340,770 |
| Intersegment sales | 59,959 | 15,038 | 14,652 | 342 | 89,993 | (89,993) | - |
| Total | 228,915 | 92,241 | 67,254 | 42,352 | 430,763 | (89,993) | 340,770 |
| Operating income | 56,315 | 11,336 | 3,575 | 3,102 | 74,329 | 1,478 | 75,808 |

(3). Overseas sales information

| | Millions of Yen | | | | |
|------------------------------------------------------|-------------------|--------------|--------|-------------|---------|
| | April - June 2008 | | | | |
| | North America | Asia/Oceania | Europe | Other Areas | Total |
| Overseas sales | 63,605 | 84,987 | 40,619 | 23,675 | 212,887 |
| Consolidated sales | | | | | 340,770 |
| Percentage of overseas sales over consolidated sales | 18.7 | 25.0 | 11.9 | 6.9 | 62.5 |

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

Not applicable.

(Reference: Consolidated financial statements for the first quarter ended June 30, 2007)

(1). Consolidated statement of income (Summary)

| | Millions of Yen |
|-------------------------------------------------------------|-------------------|
| | April – June 2007 |
| Net sales | 342,419 |
| Cost of sales | 237,059 |
| Gross profit | 105,359 |
| Selling, general and administrative expenses | 35,825 |
| Operating income | 69,533 |
| Net non-operating income (expenses) | 2,007 |
| Ordinary income | 71,541 |
| Extraordinary gain (losses) | 3,553 |
| Income before income taxes | 75,095 |
| Income taxes | 28,263 |
| Minority interests in earnings of consolidated subsidiaries | 1,239 |
| Net income | 45,592 |

(2). Business segment information

| | Millions of Yen | |
|---------------------------------|-------------------|------------------|
| | April - June 2007 | |
| | Sales | Operating income |
| Organic and inorganic chemicals | 170,715 | 24,409 |
| Electronics materials | 143,288 | 38,773 |
| Functional materials and others | 28,414 | 6,330 |
| Elimination or corporate | - | 20 |
| Consolidated total | 342,419 | 69,533 |