

Press Release

**Financial Results for the First Half Ended September 30, 2009**



October 26, 2009

**Shin-Etsu Chemical Co., Ltd.**

Listing Code: No. 4063 (URL: <http://www.shinetsu.co.jp/>)  
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Date of the filing of the quarterly consolidated financial statements ..... November 13, 2009  
Date of interim dividend payout ..... November 18, 2009

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

Percentage figures indicate increase (decrease) over 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 previous fiscal year for presenting the financial information.

**1. Consolidated Operating Performance for the First Half ended September 30, 2009**

(From April 1, 2009 to September 30, 2009)

**(1) Results of consolidated operations**

(Millions of Yen)

	Net sales		Operating income		Ordinary income		Net income	
April – September 2009	417,229	(40.0%)	52,939	(64.7%)	55,818	(64.3%)	35,528	(64.8%)
April – September 2008	695,413	-	150,101	-	156,519	-	100,953	-

	Net income per share (in yen)	Diluted net income per share (in yen)	Ratio of net income to stockholders' equity (p.a.)
April – September 2009	83.70	83.69	5.1%
April – September 2008	235.04	235.00	13.9%

**(2) Consolidated financial position**

(Millions of Yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in yen)
September 30, 2009	1,740,579	1,460,900	81.3%	3,334.85
March 31, 2009	1,684,944	1,407,353	81.1%	3,218.28

(Note) Stockholders' equity (Millions of Yen) As of September 30, 2009 : 1,415,658 As of March 31, 2009 : 1,366,061  
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 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	Year-end	Fiscal year
April 2008 – March 2009	-	50.00	-	50.00	100.00
April 2009 – March 2010	-	50.00			
April 2009 – March 2010 (forecast)			-	-	-

(Note) Revision of cash dividend forecast for during this period: No  
The year-end dividend per share for the current fiscal year has not been determined.

**3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2010**

(From April 1, 2009 to March 31, 2010)

(Note) Revision of consolidated operating performance forecast for during this period: No

With regard to the business forecast for the fiscal year ending March 31, 2010 (FY 2010), when Shin-Etsu Group released "Notice Regarding Operation Performance and Dividend Forecasts" on September 8, 2009, we did not issue a forecast due to the difficulties in accurately calculating projected forecast figures. These difficulties continue to exist and, therefore, we will not issue a forecast at this time. For more information about this decision, please see "Qualitative Information and Consolidated Financial Statements, 3. Qualitative information regarding the consolidated business forecast" on page 5.

**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 consolidated financial statements**

**Changes due to revisions of accounting standards: No**

**Changes other than the above: No**

**(4) Number of shares outstanding (in shares)**

	September 30, 2009	March 31, 2009
Number of shares outstanding at period end	432,106,693	432,106,693
Number of treasury stocks at period end	7,602,363	7,636,973
	April – September 2009	April – September 2008
Weighted-average number of shares outstanding over period	424,491,492	429,513,275

**(Notes)**

(1) 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) Because at this time Shin-Etsu has not issued a business forecast for FY 2010, which ends on March 31, 2010, we will not issue a forecast for the year-end dividend per share for FY 2010. We will promptly announce the dividend forecast as soon as such disclosure becomes possible.

## Qualitative Information and Consolidated Financial Statements

### 1. Qualitative information regarding the consolidated operating results

#### (1) General overview

The world economy during the first half of FY 2010 (April 1, 2009 to September 30, 2009) continued in recession due to the influence of the financial crisis stemming from the U.S., which started in the early fall of 2008. Centered in Europe and the U.S., its serious impact on the global business situation lingered. Although there was a partial movement toward economic recovery in the Japanese economy, the severe economic situation still continued, as facility investment decreased substantially and employment conditions further deteriorated.

Under these circumstances, the Shin-Etsu Group strove to strengthen relationships with its customers worldwide and to widely expand its sales; at the same time, we focused on carrying out further business rationalization and streamlining measures, as well as on the development and commercialization of new products.

As a result, the consolidated business results for the first half of FY 2010 show that Net sales decreased by 40.0% (¥278,184 million), compared with the first half of FY 2009, to ¥417,229 million. Compared to the performance of the first half of FY 2009, Operating income decreased by 64.7% (¥97,162 million) to ¥52,939 million, Ordinary income decreased by 64.3% (¥100,701 million) to ¥55,818 million and Net income decreased by 64.8% (¥65,425 million) to ¥35,528 million.

#### (2) Business segment overview

##### Organic and inorganic chemicals

###### **PVC**

While other U.S. companies in the same business curtailed production due to the long period of stagnant conditions in the U.S. housing market, Shintech in U.S strove to expand sales to its worldwide customers, who the company has cultivated over a long period of years, and maintained a high level of shipments. On the other hand, because Shin-Etsu PVC in The Netherlands was affected by the decline of the European market and the effect of its plants' periodic maintenance, the business remained weak. With regard to the PVC business in Japan, although exports were strong, because of sluggish demand, domestic shipments were slow and the business continued to be in a severe situation.

###### **Silicones**

Shin-Etsu's international silicones business saw a recovery trend in demand, mainly in Asia. In Japan, the recovery trend is continuing in such fields as electric, electronics and automobile applications. The business of keypads for mobile phones supplied by Shin-Etsu Polymer Co., Ltd. remained weak due to sluggish demand and intensifying price competition.

###### **Other products**

Although sales of cellulose derivatives in Japan for pharmaceutical-use were firm, there was no sense of recovery in construction and industrial applications, and the business remained sluggish. SE Tylose in Germany was affected by the slow demand for construction materials in Europe, and shipments could not increase. On the other hand, SIMCOA's silicon metal business in Australia remained strong.

As a result, Net sales of this business segment decreased by 34.6% (¥122,658 million), compared to the first half of FY 2009, to ¥231,798 million. Operating income also decreased by 50.7% (¥28,169 million) to ¥27,367 million.

## **Electronics Materials**

### **Semiconductor silicon**

Although there were partial signs of demand recovery, mainly for 300mm silicon wafers, product prices remained at a low level and the severe business situation continued.

### **Other Products**

In the rare earth magnets for the electronics industry business, demand for applications in hard disk drives for PCs was back on course for recovery. In addition, photoresists products continued a strong level of shipments. The business of organic materials for the electronics industries was good for applications as a coating material for high-luminance LEDs; however, on the whole, the business remained weak.

As a result, Net sales of this business segment decreased by 49.8% (¥141,871 million), compared to the first half of FY 2009, to ¥143,137 million. Operating income decreased by 78.4% (¥62,304 million) to ¥17,136 million.

## **Functional Materials and Others**

### **Synthetic quartz**

With regard to synthetic quartz, sales of optical fiber preform continued to be strong. However, although shipments of large-size photomask substrates used for LCDs continued to be firm, the product price level continued to be in a difficult situation.

### **Rare earth magnets for general use and other functional materials**

Sales of rare earth magnets for general industrial use remained strong for applications in motors of hybrid cars. However, facility investment-related areas, such as applications for industrial motors, were weak. Sales of pellicles continued to be strong, and although sales of liquid fluoroelastomers in Japan were on a recovery course, exports did not do well.

As a result, Net sales of this business segment decreased by 24.4% (¥13,655 million) compared to the first half of FY 2009, to ¥42,293 million. Operating income decreased by 41.7% (¥6,403 million) to ¥8,947 million.

## **2. Qualitative information regarding the consolidated financial position**

As of September 30, 2009, Total assets increased by ¥55,635 million, compared with that as of March 31, 2009, to ¥1,740,579 million. This was mainly due to an increase in Accounts receivable-trade and in the yen-translated sum of the total assets held by overseas consolidated subsidiaries caused by the weaker yen as of June 30, 2009, the first half closing date for foreign subsidiaries, compared with December 31, 2008.

Total liabilities increased by ¥2,087 million, compared with that as of March 31, 2009, to ¥279,678 million. This was mainly due to an increase in Accounts payable-trade, although Accounts payable for construction of facilities decreased.

Total net assets increased by ¥53,547 million, compared with that as of March 31, 2009, to ¥1,460,900 million. This was due to an increase in Foreign currency translation adjustments, caused by the weaker yen as of June 30, 2009 compared with December 31, 2008, and an increase in Retained earnings resulting from Net income.

The stockholders' equity ratio increased by 0.2 percentage points compared with that as of March 31, 2009, to 81.3%.

### **3. Qualitative information regarding the consolidated business forecast**

With regard to the forecast for FY 2010, although there is a recovery trend in parts of the world economy, the serious world economic situation is still continuing. In Japan there are concerns about the worsening of the employment situation as well as the impact of the appreciation of the yen, and severe business circumstances are anticipated in the future.

The Shin-Etsu Group will continue to make maximum efforts to navigate through the severe business environment we are facing through such measures as stimulating demand by creating products that have special characteristics, aggressively developing sales to regions where demand is relatively strong, and, at the same time, striving for productivity improvement and reducing manufacturing costs. In addition, by further promoting the strengthening of its high technologies and enhancing product quality and, at the same time, striving to stably secure raw materials, Shin-Etsu will aim to build an even stronger business foundation.

With regard to the forecast of the Shin-Etsu Group's consolidated business results, the market environment surrounding Shin-Etsu's main customers, such as those companies in the electronics, electric and automobile industries, still continues to be filled with uncertainty, and this uncertainty continues to make it difficult to announce our consolidated business forecast at this time. We will promptly make an announcement of the consolidated business forecast as soon as the disclosure of the forecast becomes possible.

### **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 financial statements

Not applicable

#### **(3) Changes of accounting policies applied, procedures and disclosures for presenting quarterly consolidated financial statements**

Not applicable

## **5. Consolidated Financial Statements**

### **5-1. Comparative Consolidated Balance Sheets**

As of September 30 and March 31, 2009

	Millions of Yen	
	September 30, 2009	March 31, 2009
ASSETS		
Current Assets:		
Cash and time deposits	200,930	209,541
Notes and accounts receivable-trade	250,278	215,842
Securities	115,032	111,878
Inventories	191,032	208,109
Other	80,745	73,182
Less: Allowance for doubtful accounts	(3,323)	(2,627)
Total current assets	834,695	815,926
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment	282,596	294,007
Other	361,574	315,671
Total property, plant and equipment	644,171	609,678
Intangible fixed assets	18,460	18,253
Investments and other assets		
Investments and other assets	243,264	241,126
Less: Allowance for doubtful accounts	(12)	(39)
Total investments and other assets	243,252	241,086
Total fixed assets	905,884	869,018
TOTAL ASSETS	1,740,579	1,684,944

	Millions of Yen	
	September 30, 2009	March 31, 2009
<b>LIABILITIES</b>		
Current Liabilities:		
Notes and accounts payable-trade	89,409	75,188
Short-term borrowings	10,067	10,872
Accrued income taxes	17,265	11,633
Allowances	2,012	2,665
Other	85,833	108,934
	204,587	209,294
Total current liabilities		
Long-term Liabilities:		
Long-term debt	14,565	12,817
Allowances	13,403	11,805
Other	47,122	43,673
	75,091	68,296
Total long-term liabilities		
<b>TOTAL LIABILITIES</b>		
	279,678	277,591
<b>NET ASSETS</b>		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,291,400	1,277,056
Less: Treasury stock, at cost	(41,423)	(41,613)
	1,497,574	1,483,039
Total stockholders' equity		
Valuation and translation adjustments:		
Unrealized gains (losses) on available-for-sale securities	3,472	(1,776)
Deferred gains (losses) on derivatives under hedge accounting	(925)	(41)
Foreign currency translation adjustments	(84,463)	(115,159)
	(81,915)	(116,978)
Total valuation and translation adjustments		
Share subscription rights	3,661	2,446
Minority interests in consolidated subsidiaries	41,580	38,846
	1,460,900	1,407,353
<b>TOTAL NET ASSETS</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>		
	1,740,579	1,684,944

## **5-2. Comparative Consolidated Statements of Income**

For the First Half ended September 30, 2008 and 2009

	Millions of Yen	
	April - September 2008	April- September 2009
Net sales	695,413	417,229
Cost of sales	482,245	316,304
Gross profit	213,168	100,924
Selling, general and administrative expenses	63,066	47,985
Operating income	150,101	52,939
Non-operating income:		
Interest income	3,470	2,358
Equity in earnings of affiliates	6,173	3,493
Other income	3,698	3,895
Total non-operating income	13,343	9,746
Non-operating expenses:		
Foreign exchange loss	1,656	3,035
Other expenses	5,268	3,833
Total non-operating expenses	6,924	6,868
Ordinary income	156,519	55,818
Income before income taxes	156,519	55,818
Income taxes-current	42,692	10,869
Income taxes-deferred	11,654	9,365
Total income taxes	54,346	20,235
Minority interests in earnings of consolidated subsidiaries	1,220	54
Net income	100,953	35,528



### **5-3. Comparative Consolidated Statements of Cash Flows**

For the First Half ended September 30, 2008 and 2009

	Millions of Yen	
	April - September 2008	April - September 2009
1. Cash flows from operating activities		
Income before income taxes	156,519	55,818
Depreciation and amortization	61,547	40,740
Interest and dividend income	(4,207)	(2,924)
Equity in (earnings) losses of affiliates	(6,173)	(3,493)
(Increase) decrease in notes and accounts receivable	(15,928)	(26,620)
(Increase) decrease in inventories	5,006	22,233
Increase (decrease) in notes and accounts payable	(6,960)	11,280
Other, net	(2,687)	(18,758)
Subtotal	187,114	78,275
Proceeds from interest and dividends	4,725	3,084
Payment of interest	(840)	(419)
Payment of income taxes	(44,090)	(4,482)
Net cash provided by operating activities	146,910	76,458
2. Cash flows from investing activities		
Net (increase) decrease in marketable securities	(7,635)	20,506
Purchase of property, plant and equipment	(110,010)	(74,998)
Purchase of investment securities	(10,011)	(815)
Proceeds from sales and redemption of investment securities	29,774	2,725
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(667)
Other, net	(2,299)	3,797
Net cash used for investing activities	(100,183)	(49,452)
3. Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,331)	2,945
Repayment of long-term debt	(2,041)	(5,267)
Cash dividends paid	(21,512)	(21,223)
Other, net	(16,566)	(705)
Net cash used for financing activities	(43,452)	(24,250)
4. Effect of exchange rate change on cash and cash equivalents	(5,403)	3,418
5. Net increase (decrease) in cash and cash equivalents	(2,128)	6,173
6. Cash and cash equivalents at beginning of period	301,619	251,044
7. Cash and cash equivalents at end of period	299,490	257,218

**5-4. Notes on premise of going concern**

Not applicable

**5-5. Segment Information**

**(1) Business Segment Information**

	Millions of Yen					
	April – September 2009					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	<b>Total</b>	Elimination or Common assets	<b>Consolidated Total</b>
Sales to outside customers	231,798	143,137	42,293	417,229	-	417,229
Intersegment sales	3,396	41	42,996	46,434	(46,434)	-
<b>Total</b>	<b>235,194</b>	<b>143,179</b>	<b>85,289</b>	<b>463,663</b>	<b>(46,434)</b>	<b>417,229</b>
Operating income	27,367	17,136	8,947	53,451	(511)	52,939

	Millions of Yen					
	April – September 2008					
	Organic and Inorganic Chemicals	Electronics Materials	Functional Materials and Others	<b>Total</b>	Elimination or Common assets	<b>Consolidated Total</b>
Sales to outside customers	354,456	285,008	55,948	695,413	-	695,413
Intersegment sales	6,202	1,695	56,071	63,970	(63,970)	-
<b>Total</b>	<b>360,659</b>	<b>286,704</b>	<b>112,020</b>	<b>759,384</b>	<b>(63,970)</b>	<b>695,413</b>
Operating income	55,536	79,440	15,350	150,327	(225)	150,101

**[Supplementary data: Details of Business Segment Information (Net Sales and Operating Income)]**

	Billions of Yen					
	Net Sales			Operating Income		
	April- September 2008	April- September 2009	Increase (Decrease)	April- September 2008	April- September 2009	Increase (Decrease)
Polyvinyl chloride	184.1	110.1	(74.0)	18.2	8.8	(9.4)
Silicones	96.8	70.5	(26.3)	22.8	10.5	(12.3)
Others	73.6	51.2	(22.4)	14.5	8.1	(6.4)
			[(34.6%)]			[(50.7%)]
<b>Total Organic and Inorganic Chemicals Business Segment</b>	<b>354.5</b>	<b>231.8</b>	<b>(122.7)</b>	<b>55.5</b>	<b>27.4</b>	<b>(28.1)</b>
Semiconductor silicon	248.1	115.3	(132.8)	69.9	10.0	(59.9)
Others	36.9	27.8	(9.1)	9.5	7.1	(2.4)
			[(49.8%)]			[(78.4%)]
<b>Total Electronics Materials Business Segment</b>	<b>285.0</b>	<b>143.1</b>	<b>(141.9)</b>	<b>79.4</b>	<b>17.1</b>	<b>(62.3)</b>
Synthetic quartz products	13.7	11.6	(2.1)	5.5	3.5	(2.0)
Rare earth magnets for general applications and Other functional materials	20.8	13.5	(7.3)	5.8	2.7	(3.1)
Others	21.4	17.2	(4.2)	4.1	2.7	(1.4)
			[(24.4%)]			[(41.7%)]
<b>Total Functional Materials and Others Business Segment</b>	<b>55.9</b>	<b>42.3</b>	<b>(13.6)</b>	<b>15.4</b>	<b>8.9</b>	<b>(6.5)</b>
Elimination	-	-	-	(0.2)	(0.5)	(0.3)
			[(40.0%)]			[(64.7%)]
<b>Total</b>	<b>695.4</b>	<b>417.2</b>	<b>(278.2)</b>	<b>150.1</b>	<b>52.9</b>	<b>(97.2)</b>

## (2) Geographic Segment Information

	Millions of Yen						Elimination or Common assets	Consolidated Total
	April – September 2009							
	Japan	North America	Asia/ Oceania	Europe	Total			
Sales to outside customers	235,331	86,922	47,767	47,207	417,229	-	417,229	
Intersegment sales	78,915	15,945	13,389	197	108,447	(108,447)	-	
Total	314,246	102,867	61,156	47,405	525,676	(108,447)	417,229	
Operating income	51,732	1,440	(555)	176	52,793	145	52,939	

	Millions of Yen						Elimination or Common assets	Consolidated Total
	April – September 2008							
	Japan	North America	Asia/ Oceania	Europe	Total			
Sales to outside customers	341,819	159,480	103,189	90,923	695,413	-	695,413	
Intersegment sales	121,936	30,540	28,182	505	181,164	(181,164)	-	
Total	463,755	190,020	131,372	91,429	876,578	(181,164)	695,413	
Operating income	113,952	22,062	7,049	6,404	149,469	632	150,101	

## (3) Overseas Sales Information

	Millions of Yen				
	April – September 2009				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	67,466	115,783	41,066	27,267	251,583
Consolidated sales					417,229
Percentage of overseas sales over consolidated sales	16.2	27.8	9.8	6.5	60.3

	Millions of Yen				
	April – September 2008				
	North America	Asia/ Oceania	Europe	Other Areas	Total
Overseas sales	135,059	176,479	86,720	38,217	436,476
Consolidated sales					695,413
Percentage of overseas sales over consolidated sales	19.4	25.4	12.5	5.5	62.8

(Note) Sales to China, which are included in “Asia/Oceania”, were ¥52,148 million for the first half ended September 30, 2008 and ¥44,468 million for the first half ended September 30, 2009.

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

Not applicable