

Press Release

Financial Results for the Third Quarter Ended December 31, 2008



Shin-Etsu Chemical Co., Ltd.

January 26, 2009

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

Listing stock exchange: Tokyo, Osaka and Nagoya

Representative: Chihiro Kanagawa (Mr.) President and CEO

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 February 13, 2009

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 third quarter ended December 31, 2008

(From April 1, 2008 to December 31, 2008)

(1) Results of consolidated operations

(Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income
April - December 2008	1,014,337 -	216,730 -	225,236 -	142,012 -
April - December 2007	1,043,643 7.4%	213,530 18.5%	223,008 22.7%	143,431 26.7%

	Net income per share (in Yen)	Diluted net income per share (in Yen)	Ratio of net income to stockholders' equity(p.a.)
April - December 2008	331.95	331.90	13.2%
April - December 2007	333.30	333.02	14.0%

(2) Consolidated financial position

(Millions of Yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (in Yen)
December 31, 2008	1,795,167	1,479,450	79.9%	3,380.68
March 31, 2008	1,918,544	1,483,669	75.0%	3,344.17

(Note) Stockholders' equity (Millions of Yen) As of December 31, 2008: 1,434,833 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	-	50.00	-	-	-
April 2008 - March 2009 (forecast)	-	-	-	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)
Fiscal year	- - %	- - %	- - %	- - %	-

(Note) Revision of consolidated operating performance forecast for during this period: Yes

Regarding forecast of consolidated operating performance for the fiscal year ending March 31, 2009, please see "3. Qualitative information regarding the consolidated business forecast" on page 4 for further details.

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 6 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 6 for further details.
- (4) Number of shares outstanding (in shares)

	December 31, 2008	March 31, 2008
Number of shares outstanding at period end	432,106,693	432,106,693
Number of treasury stocks at period end	7,684,392	1,865,726
	April - December 2008	April - December 2007
Weighted-average number of shares outstanding over period	427,817,517	430,332,620

(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) 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

In the world economic environment during the third quarter of FY 2009 (which ends on March 31, 2009), the financial crisis stemming from the U.S. has greatly affected the real economy and the consequences for business of the continuing downturn have become more serious. The Japanese economy also slowed down, as seen in the decrease in facility investment and the drop in personal consumption.

Under these circumstances, the Shin-Etsu Group has conducted aggressive sales activities aimed at its wide range of worldwide customers, while at the same time implementing such appropriate measures as steps to improve productivity and make efficient investments. In addition, we have actively been carrying out the development and commercialization of new products, and we are also making strenuous efforts in all of our operations to always assure that our utmost priorities are put on safety-first and environmental protection.

(2) Business segment overview

Organic and inorganic chemicals

PVC

While the U.S. housing market has been weakening, Shintech, by utilizing its sales strengths that were built up over a long period of years, continued a high level of operations by making strong sales efforts aimed at its worldwide customers. As a result, Shintech increased its business performance. In addition, Shin-Etsu PVC in The Netherlands maintained good results with its continued firm sales in Europe. On the other hand, the PVC business in Japan continued in a severe situation, which was affected by sluggish demand and a slump in exports.

Silicones

From the early fall of 2008, a volatile economic situation has been occurring in a wide range of business fields, and sales have been adversely affected by a decline in demand overseas. In addition, Shin-Etsu Polymer's business of keypads for mobile phones continued lingering at a low level, affected by a decline in unit price.

Others

The cellulose derivatives business was strong, mainly as a result of the performance of the business for pharmaceutical products in Japan. However, the business results of SE Tylose in Germany were influenced by decreased demand for construction materials. In addition, although SIMCOA in Australia did well due to the rise in the product price of silicon metal, shipments of Japan VAM & Poval products decreased.

Electronics materials

Semiconductor silicon

With the deterioration in demand for electronics devices as a result of the worldwide economic downturn, demand for semiconductor devices decreased rapidly. Because semiconductor makers have carried out a production adjustment, the demand for silicon wafers shifted into a downward phase from early fall of 2008.

Others

Sales of rare earth magnets for the electronics industry declined as a consequence of the effects of a manufacturing adjustment of hard disk drives for PCs. Sales of photoresists products were affected by manufacturing adjustments made by semiconductor device makers, and sales of organic materials for the electronics industry decreased.

Functional materials and others

Synthetic quartz

Although sales of optical fiber preform were firm with the increase in demand coming as a result of the expanding worldwide volume of data communications, sales of large-size photomask substrates used for LCDs were not good due to market sluggishness.

Rare earth magnets for general industrial use and other functional materials

Sales of rare earth magnets for general industrial use were firm for such applications as in energy-saving motors for air-conditioners. In addition, liquid fluoroelastomers and pellicles continued good shipments.

2. Qualitative information regarding the consolidated financial position

As of December 31, 2008, total assets decreased by ¥123,377 million compared to that as of March 31, 2008, to become ¥1,795,167 million. This decline was mainly due to a decrease in the yen-translated sum of the total assets held by the overseas consolidated subsidiaries caused by the appreciation of the yen.

Total liabilities decreased by ¥119,158 million, compared to that as of March 31, 2008, to become ¥315,717 million. This decline was mainly due to a decrease in accounts payable, other accounts payable for construction of facilities as well as the payment of accrued income taxes.

Retained earnings increased due to ¥142,012 million in net income; however, total net assets decreased by ¥4,219 million compared to that as of March 31, 2008, to become ¥1,479,450 million. This decline was mainly due to a decrease of valuation and translation adjustments as a result of the appreciation of the yen. The stockholders' equity ratio increased by 4.9 percentage points to 79.9%, compared to that as of March 31, 2008.

3. Qualitative information regarding the consolidated business forecast

With regard to business prospects going forward, there is concern about a further downturn in the economy, and the future situation is uncertain with regard to such trends as those of raw material prices and foreign exchange rates.

On December 17, 2008, because of the sudden downturn in the market environment, we publically announced that it would be difficult to achieve the consolidated business performance forecast, which was announced on April 28, 2008 (please see attachment on page 13).

Since then, the market environment has become more difficult, and many businesses of the Shin-Etsu Group are being affected. The Shin-Etsu Group is continuing to make all-out efforts to overcome the effects of the worsening market. However, it remains difficult at this time to announce the consolidated business forecast for FY 2009.

Although the future is quite uncertain, the Shin-Etsu Group intends to announce its consolidated business performance forecast for FY 2009 as soon as the figures become available. At this point, we do not envision that the business decline will be to such an extent that we are required to disclose the information by the Securities Listing Regulations of the Tokyo Stock Exchange.*

To ride out this severe business environment, the Shin-Etsu Group will further strengthen its world's highest level technologies and product quality, and at the same time, we will focus on improving productivity and reducing manufacturing costs. Furthermore, while we actively work to expand sales to areas where demand is relatively vigorous, we will strive to maintain a firm business foundation through such actions as endeavoring to procure stable supplies of raw materials.

*Note: Disclosure requirements according to the Securities Listing Regulations of the Tokyo Stock Exchange: The business performance forecast has to be amended when the forecast is expected to be less than or equal to 0.9 of the consolidated net sales or less than or equal to 0.7 of operating income, ordinary income or net income forecasted.

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 ¥1,635 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 ¥658 million, Ordinary income and Income before income taxes increased by ¥797 million respectively.

5. Consolidated financial statements

5-1. Comparative consolidated balance sheets

As of December 31 and March 31, 2008

	Millions of Yen	
	December 31, 2008 (A)	March 31, 2008 (B)
ASSETS		
Current Assets:		
Cash and time deposits	194,763	217,265
Notes and accounts receivable-trade	311,447	313,943
Securities	92,218	184,519
Inventories	212,249	204,336
Other	74,051	97,260
Total current assets	884,730	1,017,325
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment	216,868	240,671
Construction in progress	192,867	159,016
Other	245,106	254,955
Total property, plant and equipment	654,842	654,643
Intangible fixed assets		
Goodwill	17,954	22,803
Other	2,900	3,055
Total intangible fixed assets	20,854	25,859
Investments and other assets		
Investment securities	144,484	150,492
Other	90,255	70,224
Total investments and other assets	234,739	220,716
Total fixed assets	910,436	901,219
TOTAL ASSETS	1,795,167	1,918,544

	Millions of Yen	
	December 31, 2008 (A)	March 31, 2008 (B)
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	120,349	149,304
Short-term borrowings	7,462	11,826
Accrued income taxes	12,061	39,463
Allowances	2,104	3,694
Other	115,487	172,359
Total current liabilities	257,464	376,648
Long-term Liabilities:		
Long-term debt	18,826	22,132
Allowances	11,596	13,784
Other	27,829	22,309
Total long-term liabilities	58,252	58,226
TOTAL LIABILITIES	315,717	434,875
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,177	128,177
Retained earnings	1,265,012	1,163,680
Less: Treasury stock, at cost	(41,875)	(12,217)
Total Stockholders' Equity	1,470,734	1,399,059
Valuation and translation adjustments	(35,900)	39,737
Share subscription rights	2,446	1,614
Minority interests in consolidated subsidiaries	42,170	43,257
TOTAL NET ASSETS	1,479,450	1,483,669
TOTAL LIABILITIES AND NET ASSETS	1,795,167	1,918,544

5-2. Consolidated statement of income

For the third quarter ended December 31, 2008

	Millions of Yen April – December 2008
Net sales	1,014,337
Cost of sales	703,628
Gross profit	310,708
Selling, general and administrative expenses	93,978
Operating income	216,730
Non-operating income:	
Interest income	5,373
Equity in earnings of affiliates	5,916
Other income	5,086
Total non-operating income	16,376
Non-operating expenses	7,871
Ordinary income	225,236
Extraordinary Losses:	
Loss on write-down of investment securities	2,601
Income before income taxes	222,634
Income taxes-current	55,600
Income taxes-deferred	23,139
Total income taxes	78,739
Minority interests in earnings of consolidated subsidiaries	1,882
Net income	142,012

5-3. Consolidated statement of cash flows

For the third quarter ended December 31, 2008

	Millions of Yen
	April – December 2008
1. Cash flows from operating activities	
Income before income taxes	222,634
Depreciation and amortization	91,837
Interest and dividend income	(6,472)
Equity in earnings of affiliates	(5,916)
Increase in notes and accounts receivable	(14,834)
Increase in inventories	(13,439)
Decrease in notes and accounts payable	(15,767)
Other, net	(11,954)
Subtotal	246,087
Proceeds from interest and dividends	7,114
Payment of interest	(1,576)
Payment of income taxes	(88,017)
Net cash provided by operating activities	163,607
2. Cash flows from investing activities	
Net increase in marketable securities	(4,667)
Purchase of property, plant and equipment	(165,218)
Purchase of investment securities	(16,334)
Proceeds from sales and redemption of investment securities	30,154
Other, net	556
Net cash used for investing activities	(155,508)
3. Cash flows from financing activities	
Net decrease in short-term borrowings	(3,158)
Repayment of long-term debt	(2,481)
Purchase of treasury stock	(29,926)
Cash dividends paid	(42,884)
Other, net	(643)
Net cash used for financing activities	(79,094)
4. Effect of exchange rate change on cash and cash equivalents	(11,327)
5. Net decrease in cash and cash equivalents	(82,323)
6. Cash and cash equivalents at beginning of period	301,619
7. Cash and cash equivalents at end of period	219,296

5-4. Notes on premise of going concern

Not applicable.

5-5. Segment information

(1) Business segment information

	Millions of Yen					
	April - December 2008					
	Organic and inorganic chemicals	Electronics materials	Functional materials and others	Total	Elimination or corporate	Consolidated total
Sales to outside customers	523,578	409,149	81,609	1,014,337	-	1,014,337
Intersegment sales	8,271	2,155	80,386	90,814	(90,814)	-
Total	531,849	411,305	161,996	1,105,151	(90,814)	1,014,337
Operating income	82,497	111,060	23,258	216,816	(85)	216,730

(2) Geographic segment information

	Millions of Yen						
	April - December 2008						
	Japan	North America	Asia/Oceania	Europe	Total	Elimination or corporate	Consolidated total
Sales to outside customers	489,166	239,681	151,578	133,910	1,014,337	-	1,014,337
Intersegment sales	158,330	45,842	42,601	859	247,633	(247,633)	-
Total	647,496	285,524	194,180	134,769	1,261,970	(247,633)	1,014,337
Operating income	160,579	34,161	11,270	9,958	215,970	760	216,730

(3) Overseas sales information

	Millions of Yen				
	April - December 2008				
	North America	Asia/Oceania	Europe	Other Areas	Total
Overseas sales	201,145	246,365	128,307	59,484	635,302
Consolidated sales					1,014,337
Percentage of overseas sales over consolidated sales	19.8	24.3	12.6	5.9	62.6

(Note) Sales to China, which are included in Asia/Oceania, were ¥72,857 million for the third quarter ended December 31, 2008.

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

Not applicable.

(Reference: Consolidated financial statements for the third quarter ended December 31, 2007)

(1) Consolidated statement of income (Summary)

	Millions of Yen
	April – December 2007
Net sales	1,043,643
Cost of sales	722,579
Gross profit	321,063
Selling, general and administrative expenses	107,532
Operating income	213,530
Net non-operating income (expenses)	9,477
Ordinary income	223,008
Extraordinary income	5,036
Income before income taxes	228,044
Income taxes	80,892
Minority interests in earnings of consolidated subsidiaries	3,720
Net income	143,431

(2) Business segment information

	Millions of Yen	
	April - December 2007	
	Sales	Operating income
Organic and inorganic chemicals	533,049	74,020
Electronics materials	429,628	120,576
Functional materials and others	80,964	19,192
Elimination or corporate	-	(258)
Consolidated total	1,043,643	213,530

(Attachment)

Shin-Etsu Chemical Co., Ltd. (4063)
Third Quarter ended December 31, 2008



December 17, 2008

6-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo
Shin-Etsu Chemical Co., Ltd.
Chihiro Kanagawa, President and CEO
(Code No. 4063)

Contact: Toshiyuki Kasahara
Director and General Manager
Finance & Accounting Department
TEL: (03) 3246-5051

Notice of Revision of Financial Results Forecast

At the time of the announcement of its consolidated business performance for FY 2008 (which ended Mar. 31, 2008) on April 28, 2008, Shin-Etsu issued its business forecast for FY 2009 (ending Mar. 31, 2009). Its guidance for the consolidated business performance of the Shin-Etsu Group in FY 2009 can be found in the reference material below. However, most recently, the market environment in a wide range of businesses is quickly worsening worldwide, mainly in the electronics/electric and automotive industries, which are among Shin-Etsu's major customers, and these market conditions are rapidly having an impact on Shin-Etsu's businesses, starting with the electronics materials business segment.

Shin-Etsu has been continuing to strive to overcome the effects of the worsening market through making the utmost management efforts. However, the effects of the severe downturn in market conditions since November have gone far beyond the limits of the company's management efforts, and we are announcing that the situation now is that it will be difficult to achieve the consolidated business performance forecast announced on April 28.

Presently, we are reviewing the consolidated business performance forecast and intend to announce revised forecast figures as soon as they become available. At this point, we do not envision that the business decline will be to such an extent that we are required to disclose the information by the Securities Listing Regulations of the Tokyo Stock Exchange. *

*Note: Disclosure requirements according to the Securities Listing Regulations of the Tokyo Stock Exchange: The business performance forecast has to be amended when the forecast is expected to be less than or equal to 0.9 of the consolidated net sales forecasted at the time of announcement of April 28, 2008 or less than or equal to 0.7 of operating income, ordinary income or net income forecasted.

(Reference)

(Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (in Yen)
(Announced on April 28, 2008) Forecast of consolidated operating performance for the fiscal year ending March 31, 2009	1,400,000	307,000	320,000	200,000	464.86
Fiscal year ending March 31, 2008	1,376,364	287,145	300,040	183,580	426.63