Eleven-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2002 through 2012

	Millions of yen				
	2002	2003	2004	2005	2006
For the year:					
Net sales	¥ 775,096	¥ 797,523	¥ 832,804	¥ 967,486	¥1,127,915
Cost of sales	572,365	585,220	619,085	715,143	831,333
Selling, general and administrative expenses	88,007	90,152	88,094	100,608	111,262
Operating income	114,723	122,149	125,625	151,734	185,320
Ordinary income	117,031	122,119	125,612	151,503	185,040
Net income	68,518	73,015	74,805	93,160	115,045
Capital expenditures	81,543	75,211	113,591	110,277	145,329
R&D costs	28,207	27,279	26,329	27,924	32,003
Depreciation and amortization	70,878	66,566	73,581	90,874	111,637
At year-end:					
Total assets	¥1,288,432	¥1,310,874	¥1,386,216	¥1,476,248	¥1,671,280
Working capital	363,677	409,262	401,878	444,935	572,205
Common stock	110,259	110,271	110,493	117,513	119,419
Net assets	—	—	—	—	—
Stockholders' equity	812,068	846,961	900,724	996,307	1,173,679
Interest-bearing debt	182,729	167,362	163,167	120,422	83,838
Per share (Yen and U.S. dollars):					
Net income—primary	¥ 162.93	¥ 173.13	¥ 177.25	¥ 219.10	¥ 266.63
Net income—fully diluted[2]	159.38	169.36	173.52	216.11	266.07
Cash dividends	12.00	14.00	16.00	20.00	35.00
Payout ratio (%)	7.4	8.1	9.0	9.1	13.1
Net assets	1,930.30	2,014.11	2,140.23	2,329.47	2,730.94
General:					
Operating income to net sales ratio (%)	14.8	15.3	15.1	15.7	16.4
Net income to net sales ratio (%)	8.8	9.2	9.0	9.6	10.2
ROE (%)[3]	9.0	8.8	8.6	9.8	10.6
ROA (%)	9.2	9.4	9.3	10.6	11.8
Equity ratio (%)	63.0	64.6	65.0	67.5	70.2
Number of employees	16,456	16,573	17,384	18,151	18,888
Number of shares issued (Thousands)	422,555	422,567	422,798	430,118	432,106

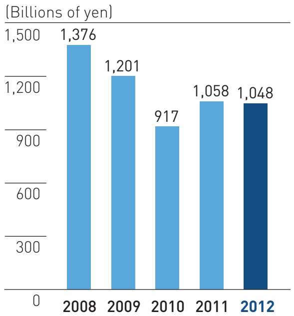
Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥82 = US$1, the approximate rate of exchange on March 31, 2012.
2. Diluted net income per share for the fiscal year ended March 31, 2012 is not presented as there were no securities with dilutive effect.
3. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "valuation and translation adjustments."

Millions of yen						Thousands of U.S. dollars (Note 3)
2007	2008	2009	2010	2011	**2012**	**2012**
¥1,304,695	¥1,376,364	¥1,200,813	¥ 916,837	¥1,058,257	**¥1,047,731**	**$12,777,212**
933,199	946,940	853,433	700,902	803,574	**798,592**	**9,738,937**
130,467	142,278	114,453	98,718	105,460	**99,505**	**1,213,485**
241,028	287,145	232,927	117,215	149,221	**149,632**	**1,824,789**
247,018	300,040	250,533	127,019	160,338	**165,237**	**2,015,089**
154,010	183,580	154,731	83,852	100,119	**100,643**	**1,227,353**
210,613	268,479	159,406	123,793	119,884	**87,165**	**1,062,992**
41,737	47,944	37,469	33,574	37,321	**35,725**	**435,676**
138,462	141,269	119,457	87,722	93,732	**82,868**	**1,010,595**
¥1,859,995	¥1,918,544	¥1,684,944	¥1,769,139	¥1,784,166	**¥1,809,841**	**$22,071,240**
628,986	638,806	606,632	612,447	638,493	**694,803**	**8,473,213**
119,419	119,419	119,419	119,419	119,419	**119,419**	**1,456,337**
1,360,315	1,483,669	1,407,353	1,474,212	1,469,429	**1,494,573**	**18,226,501**
—	—	—	—	—	**—**	**—**
45,143	34,045	23,827	20,052	14,574	**15,732**	**191,860**
¥ 357.78	¥ 426.63	¥ 362.39	¥ 197.53	¥ 235.80	**¥ 237.03**	**$ 2.891**
357.32	426.35	362.35	197.50	235.80	**—**	**—**
70.00	90.00	100.00	100.00	100.00	**100.00**	**1.220**
19.6	21.1	27.6	50.6	42.4	**42.2**	**42.2**
3,065.80	3,344.17	3,218.28	3,370.56	3,360.39	**3,422.93**	**41.743**
18.5	20.9	19.4	12.8	14.1	**14.3**	**14.3**
11.8	13.3	12.9	9.1	9.5	**9.6**	**9.6**
12.4	13.3	11.0	6.0	7.0	**7.0**	**7.0**
14.0	15.9	13.9	7.4	9.0	**9.2**	**9.2**
71.0	75.0	81.1	80.9	80.0	**80.3**	**80.3**
19,177	20,241	19,170	16,955	16,302	**16,167**	**16,167**
432,106	432,106	432,106	432,106	432,106	**432,106**	**432,106**

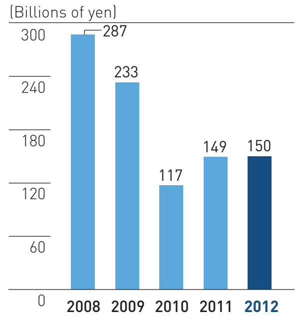
Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

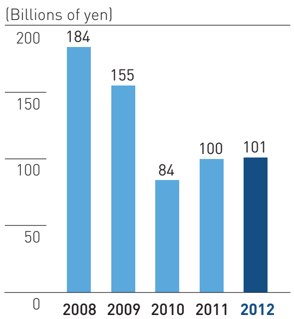
Net Sales



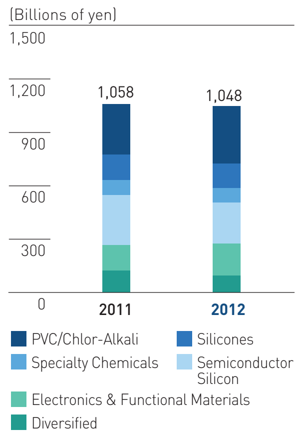
Operating Income



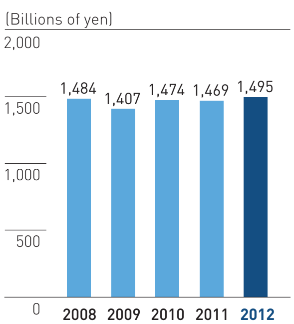
Net Income



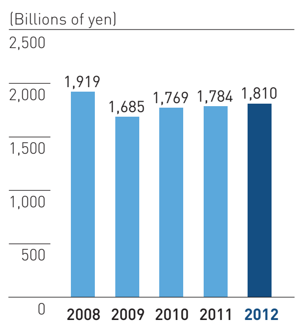
Net Sales by Business Segment



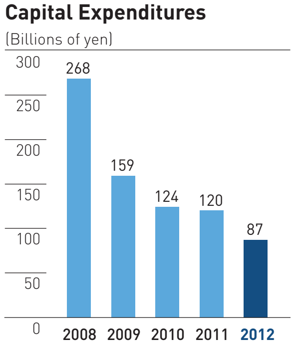
Total Net Assets



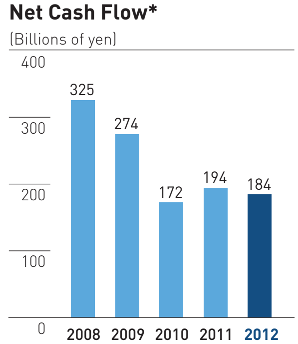
Total Assets



Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") was composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 110 subsidiaries and 17 affiliates as of March 31, 2012. There are six business segments: PVC/Chlor-Alkali Business, Silicones Business, Specialty Chemicals Business, Semiconductor Silicon Business, Electronics & Functional Materials Business and Diversified Business. The Group conducts business activities by dividing manufacturing and sales activities among Group companies and using mutual cooperation among all of these companies.

Consolidated Operating Performance

With regard to the world economy, during FY 2012 (April 1, 2011 to March 31, 2012), although, on the whole, emerging economies in regional areas such as Asia and Central and South America performed well, the recovery of the United States economy continued to be slow due to a weak employment situation and a sluggish housing market, and in Europe, there continued to be a serious lingering debt concern that has rapidly brought about a strong sense of economic stagnation. On the other hand, due to the effects of the Great East Japan Earthquake, the flood damage in Thailand and the additional headwind resulting from the progression in the rapid appreciation of the Japanese yen, overall, the severe situation of the Japanese economy continued.

Under these circumstances, the Shin-Etsu Group worked to carry out its sales activities to its wide range of customers worldwide, and at the same time, made concerted efforts to restore Shin-Etsu Chemical's Kashima Plant and Shin-Etsu Handotai's Shirakawa Plant that had been damaged by the Great East Japan Earthquake in March 2011, and by the end of June 2011, we completed the restoration work. In addition, we have focused on building a strong business foundation by such means as working to stably secure raw materials and assiduously carrying out our strategy of establishing multiple manufacturing bases.

Net Sales

Net sales decreased 1.0% (¥10.5 billion) to ¥1,047.7 billion compared with the previous fiscal year.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales decreased 0.6% (¥5.0 billion) to ¥798.6 billion but the ratio of cost of sales to net sales increased 0.3 of a percentage point to 76.2%. Selling, general and administrative (SG&A) expenses decreased 5.6% (¥6.0 billion) to ¥99.5 billion, but the ratio of these expenses to sales decreased 0.5 of a percentage point to 9.5%.

Research and development costs, which are included in manufacturing costs and SG&A expenses, decreased 4.3% (¥1.6 billion) to ¥35.7 billion and the radio of these costs to net sales was 3.4%.

Operating Income

Operating income increased 0.3% (¥0.4 billion) to ¥149.6 billion and the operating margin increased 0.2 of a percentage point to 14.3%.

Business Segment Overview

PVC/Chlor-Alkali Business

With regard to PVC, despite the prolonged slump in the U.S. housing market, Shintech Inc. in the U.S. maintained a high level of shipments by expanding its sales to worldwide customers and it greatly increased its business performance. In addition, Shin-Etsu PVC in The Netherlands also continued firm shipments. On the other hand, in Japan, a tough business situation continued due to such factors as the effects of the operation stoppage at our Kashima Plant as a consequence of the Great East Japan Earthquake and sluggish demand.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 14.3% (¥40,505 million) to ¥324,030 million and operating income increased by 20.2% (¥3,977 million) to ¥23,651 million.

Silicones Business

With regard to the silicones business, sales in Japan during the first half of the fiscal year continued to be firm, mainly in product applications areas such as the electronics and cosmetic fields. In the second half of the fiscal year, on the whole, business was slow, although some recovery was seen in such applications as those for automobiles. Our overseas business was strongly affected by sluggish market prices in the Asian region, such as in China.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 5.3% (¥7,603 million) to ¥135,461 million and operating income decreased by 1.1% (¥370 million) to ¥33,687 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in addition to the business in Japan continuing to do well, mainly in pharmaceutical-use products and industrial-use products, the business of SE Tylose in Germany continued to be firm due to the recovery of demand in building and construction application products. Furthermore, the silicon metal business of Simcoa Operations in Australia continued to do well, aided by rising market conditions.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 4.3% (¥3,615 million) to ¥87,127 million and operating income increased by 13.8% (¥1,784 million) to ¥14,698 million.

Semiconductor Silicon Business

With regard to the semiconductor silicon business, in addition to the stoppage of operations due to the effects of the Great East Japan Earthquake at our major production base in Shirakawa, Japan, there was a continuing slowdown in demand for wafers after the summer due to the sluggish electronics market for such products as PCs and flat panel TVs, and the severe business situation continued.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 19.1% (¥54,133 million) to ¥229,656 million and operating income decreased by 11.7% (¥4,531 million) to ¥34,333 million.

Electronics & Functional Materials Business

With regard to rare-earth magnets, we addressed the sharp rise of raw materials prices, and at the same time, we endeavored to expand sales mainly for applications in hybrid automobiles. As a result, the business continued to do well. Photoresist products remained strong, aided by the progress in semiconductor device miniaturization. The business of materials for high-luminance LED packaging also continued to do well. With regard to the optical fiber preform business, although this business was affected by the stoppage of operations at the Kashima Plant due to the Great East Japan Earthquake, after the restoration, firm shipments continued.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 25.8% (¥36,409 million) to ¥177,792 million and operating income increased by 5.7% (¥2,053 million) to ¥38,171 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for mobile phones remained in a severe situation due to a large decrease in demand resulting from the rapid spread of touch-panel type smartphones. In addition, the business of semiconductor wafer-related containers continued to be slow due to sluggish semiconductor device demand.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 23.8% (¥29,318 million) to ¥93,663 million and operating income decreased by 31.4% (¥2,308 million) to ¥5,032 million.

Other Income and Extraordinary Loss

Net non-operating income was ¥15.6 billion, which included equity in earnings of affiliates of ¥15.7 billion. There was a net extraordinary loss of ¥10.6 billion that included an extraordinary profit from the reversal of restoration costs for earthquake and extraordinary losses for loss on impairment of fixed assets and loss on disaster. After these items, income before income taxes increased 11.0% (¥15.4 billion) to ¥154.7 billion.

Net Income

Income taxes increased ¥16.2 billion to ¥54.2 billion because in the previous fiscal year there was a refund of income taxes paid in prior years. Net income increased 0.5% (¥0.5 billion) to ¥100.6 billion and net income per share increased ¥1.23 to ¥237.03.

Analysis of Financial Position

Information on Assets, Liabilities and Net Assets

At the end of FY 2012, total assets increased by ¥25,675 million, compared with that at the end of the previous fiscal year to ¥1,809,841 million. This was mainly due to an increase in inventory.

Total liabilities increased by ¥531 million from that at the end of the previous fiscal year to ¥315,268 million.

Total net assets increased by ¥25,144 million to ¥1,494,573 million, compared to that at the end of the previous fiscal year. Retained earnings increased resulting from the net income of ¥100,643 million for FY 2012. On the other hand, foreign currency translation adjustments decreased as a result of the appreciation of the yen.

The stockholders' equity ratio was 80.3%, up 0.3 percentage points from 80.0% at the end of the previous fiscal year.

Status of Cash Flows

The balance of cash and cash equivalents at the end of FY 2012 decreased by 10.6% (¥31,964 million) compared to that at the end of previous fiscal year to ¥270,321 million.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥96,567 million, down ¥120,923 million from the previous fiscal year. Income before income taxes was ¥154,671 million and depreciation and amortization was ¥82,868 million. Major uses of cash were a ¥77,517 million increase in inventories, ¥41,124 million for the payment of income taxes and ¥21,041 million in payment of restoration costs for the earthquake.

Cash flows from investing activities

Net cash used for investing activities was ¥89,190 million, a decrease of ¥42,815 million over the previous fiscal year, consisted mainly of ¥80,320 million for purchases of property, plant and equipment.

Cash flows from financing activities

Net cash used for financing activities decreased by ¥6,447 million from the previous fiscal year to ¥42,174 million. This is mainly for cash dividends paid of ¥42,459 million.

Capital expenditures

Capital expenditures totaled ¥87.2 billion. In the PVC/Chlor-Alkali Business, expenditures decreased to ¥18.3 billion because of the completion of the expansion of integrated PVC production facilities at Shintech Inc. In the Silicones Business, there were expenditures of ¥14.4 billion for a new silicone rubber plant in China and other projects. Expenditures were ¥14.6 billion in the Electronics & Functional Materials Business, which includes building an optical fiber preform plant in China, ¥23.6 billion in the Semiconductor Silicon Business, ¥13.0 billion in the Specialty Chemicals Business and ¥3.4 billion in the Diversified Business.

Basic policy concerning profit-sharing

Taking a long-term perspective, Shin-Etsu will focus on expanding company earnings and strengthening the make-up of the Group's structure as well as on sharing the results of such successful management efforts. It is our basic policy to distribute dividends so as to appropriately reward all of our shareholders. With regard to our financial reserves, we are making efforts to heighten the value of the company by reinvesting them in such core business activities as facility investment, and research and development, and we will proactively utilize them for strengthening Shin-Etsu's global competitive power and future business development.

In line with our basic profit-sharing policy, the year-end dividend is ¥50 per share, the same amount as the interim dividend of ¥50 per share. Accordingly, the total annual dividend per share for FY 2012 is ¥100, the same amount as in the previous fiscal year.

Outlook for Fiscal 2013 (ending March 2013)

With regard to business prospects going forward, although there is an expectation that the trend towards a gradual recovery in the world economy will continue, the business situation continues to not allow for optimism due to such concerns as the sharp rise in crude oil prices and the financial worries associated with Europe's fiscal problems. In Japan as well, the severe economic situation is forecasted to continue because of such concerns as restrictions on electric power supplies and the effects of deflation.

Under these circumstances, the Shin-Etsu Group will manufacture products that have high reliability resulting from its stable production activities and will carry out its aggressive sales activities to its wide range of customers around the world. Moreover, we will focus on further improving our technologies and enhancing product quality, and 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 striving to establish multiple manufacturing bases on a global scale and working to stably secure raw materials.

Business Risk

This section discusses risk factors that could potentially influence such key business matters as the results of the Shin-Etsu Group's business operations, financial condition and cash flows. The Group reduces its vulnerability to business risks by taking measures to prevent, disperse or hedge these risks. However, if an unforeseeable situation should occur, it could have a significant impact on the Group's business results.

This section contains a list of significant items that the Group considers are current risk factors, but it is not intended to be a comprehensive list of all risks that could seriously impact the Group's business performance.

1) Influence of Economic Trends and Product Markets

Changes in the economic situation of countries or regions where the Group's key products are marketed can have a great impact on the results of the Group's business operations. In addition, among the Group's key products, some products could be affected by large price fluctuations due to the global supply and demand environment. The Group is hedging its risks by taking such strategies as diversifying and globalizing its businesses. However, a downturn in demand for certain of its products or escalating price competition could have a significant effect on the Group's business operations results.

2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 65.0% of the consolidated net sales of the Group in fiscal 2012, and it is expected that this ratio will remain at a high level. The Japanese yen equivalent amounts of items in the financial statement items of overseas consolidated subsidiaries, which are included in the Group's consolidated financial statements, are influenced by fluctuations in foreign exchange rates. A large movement in these rates could have a great impact on the business results of the entire Group. In addition, although we use forward-exchange contracts and other measures to reduce risk exposure associated with transactions in foreign currencies, a large movement in foreign exchange rates could have a similar serious effect on the Group's business operations results.

3) Influence of Natural Disasters and Disastrous Accidents

To minimize the damage that could result from an interruption of production activities, the Group performs regular disaster-prevention inspections, carries out a constant program of facility maintenance activities at its production facilities and makes facility investments to enhance safety and establish multiple manufacturing bases. However, if a natural disaster or disastrous accident or other unforeseen event damages production facilities or other areas, such circumstances could have a major impact on the Group's business operations results.

4) Influence of Public Regulations and Laws

In countries and regions where the Group is carrying out its business activities, we are bound by the approval processes and licensing requirements involving investment and import/export regulations as well as by various related laws concerning commercial transactions, labor, patents, taxes, foreign exchange and other items. Any changes in these regulations and laws could have a significant effect on the Group's business operations results.

5) Influence of Supply Factors on Procurement of Materials

The Group uses various raw materials in its production activities, and we strive to assure a stable supply of these materials by diversifying our supply sources. However, if supplies become tight or there are delays in procuring these materials, or if prices increase because of these events, there could be a great effect on the Group's business operations results.

6) Influence of the Development of New Products and Technologies

The pace of technological progress is rapid in the electronics industry, which is an important market for some of the Group's products. The Company is constantly working on developing the most advanced cutting-edge materials to meet needs associated with this technological innovation. However, if the Group is unable to take appropriate measures in response to changes in industries and/or markets despite its constant efforts, there could be a significant effect on the Group's business operations results.

7) Influence of Environmental Issues

The Group handles various types of chemical substances and complies strictly with various laws and regulations concerning the environment. In addition, the Group has been making efforts for energy-saving in order to help combat global warming and for eliminating or significantly reducing emissions of substances that are harmful to the environment. However, if regulations concerning the environment become more strict than presently anticipated and require large-scale capital expenditures and other investments as a result, there could be a significant effect on the Group's business operations results.

8) Influence of Product Liability

The Group uses a large number of measures to maintain the optimum quality of its products in accordance with the characteristics of each product. However, a problem involving product quality that occurs due to unforeseen circumstances could have a significant effect on the Group's business operations results.

Consolidated Balance Sheets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	**2012**
ASSETS			
Current Assets:			
Cash and time deposits (Note 24)	**¥ 241,390**	¥ 244,002	**$ 2,943,781**
Notes and accounts receivable—trade (Note 4)	**264,283**	270,499	**3,222,965**
Securities (Notes 6 and 24)	**89,301**	116,714	**1,089,040**
Merchandise and finished goods	**121,471**	97,816	**1,481,358**
Work in process	**9,386**	9,784	**114,474**
Raw materials and supplies	**129,450**	80,683	**1,578,661**
Deferred taxes, current (Note 22)	**34,599**	21,114	**421,947**
Other	**59,344**	49,847	**723,716**
Less: Allowance for doubtful accounts (Note 2 (5))	**(6,982)**	(2,534)	**(85,153)**
Total current assets	**942,244**	887,927	**11,490,790**
Fixed Assets:			
Property, Plant and Equipment (Notes 2 (8) and 9)**:**			
Buildings and structures, net	**156,403**	155,719	**1,907,362**
Machinery and equipment, net	**330,707**	252,229	**4,033,015**
Land	**65,400**	64,577	**797,562**
Construction in progress	**40,240**	141,770	**490,732**
Other, net	**5,807**	6,037	**70,818**
Total property, plant and equipment	**598,558**	620,334	**7,299,491**
Intangible Fixed Assets:			
Goodwill	**9,020**	10,521	**110,006**
Other	**4,566**	3,499	**55,689**
Total intangible fixed assets	**13,587**	14,020	**165,696**
Investments and Other Assets:			
Investments in securities (Notes 6 and 8)	**154,161**	155,899	**1,880,023**
Long-term loans	**3,583**	3,627	**43,703**
Deferred taxes, non-current (Note 22)	**19,937**	22,185	**243,138**
Other (Note 8)	**77,786**	80,209	**948,614**
Less: Allowance for doubtful accounts (Note 2 (5))	**(17)**	(38)	**(218)**
Total investments and other assets	**255,451**	261,883	**3,115,262**
Total fixed assets	**867,596**	896,238	**10,580,449**
Total Assets	**¥1,809,841**	¥1,784,166	**$22,071,240**

The accompanying notes are an integral part of the statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	**2012**
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Notes and accounts payable—trade (Note 4)	**¥ 109,378**	¥ 110,753	**$ 1,333,889**
Short-term borrowings (Note 10)	**13,862**	8,712	**169,053**
Accounts payable-other	**32,011**	36,508	**390,378**
Accrued expenses	**45,375**	37,486	**553,358**
Accrued income taxes	**34,758**	21,072	**423,885**
Accrued bonuses for employees	**1,887**	2,037	**23,016**
Accrued bonuses for directors	**360**	395	**4,392**
Provision for loss on disaster	**—**	24,401	**—**
Other (Notes 4 and 22)	**9,807**	8,066	**119,602**
Total current liabilities	**247,441**	249,434	**3,017,577**
Long-Term Liabilities:			
Long-term debt (Note 10)	**1,454**	5,548	**17,734**
Deferred taxes, non-current (Note 22)	**44,295**	39,498	**540,194**
Accrued retirement benefits (Note 11)	**16,687**	14,119	**203,510**
Accrued retirement bonuses for directors	**421**	379	**5,142**
Other	**4,967**	5,757	**60,579**
Total long-term liabilities	**67,827**	65,302	**827,161**
Total Liabilities	**315,268**	314,737	**3,844,738**
Commitment and Contingent Liabilities (Note 12)			
Net Assets			
Stockholders' Equity:			
Common stock:	**119,419**	119,419	**1,456,337**
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2012 and 2011, respectively			
Additional paid-in capital	**128,177**	128,177	**1,563,142**
Retained earnings (Note 13)	**1,435,693**	1,376,043	**17,508,452**
Less: Treasury stock, at cost	**(40,925)**	(40,917)	**(499,087)**
7,512,807 shares and 7,510,657 shares as of March 31, 2012 and 2011, respectively			
Total stockholders' equity	**1,642,365**	1,582,724	**20,028,844**
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7))	**1,212**	3,275	**14,785**
Deferred gains (losses) on hedges	**25**	895	**315**
Foreign currency translation adjustments	**(190,249)**	(160,087)	**(2,320,120)**
Total accumulated other comprehensive income	**(189,011)**	(155,916)	**(2,305,019)**
Share Subscription Rights	**3,491**	3,822	**42,584**
Minority Interests in Consolidated Subsidiaries	**37,727**	38,798	**460,092**
Total net assets	**1,494,573**	1,469,429	**18,226,501**
Total Liabilities and Net Assets	**¥1,809,841**	¥1,784,166	**$22,071,240**

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2012	2011	2010	2012
Net Sales (Note 25)	¥1,047,731	¥1,058,257	¥916,837	$12,777,212
Cost of Sales (Notes 11 and 17)	798,592	803,574	700,902	9,738,937
Gross profit	249,138	254,682	215,934	3,038,274
Selling, General and Administrative Expenses (Notes 11, 16 and 17)	99,505	105,460	98,718	1,213,485
Operating income (Note 25)	149,632	149,221	117,215	1,824,789
Other Income (Expenses):				
Interest income	2,978	2,800	3,772	36,319
Dividend income	1,530	1,350	1,259	18,669
Equity in earnings of affiliates	15,656	12,627	9,994	190,931
Interest expenses	(517)	(529)	(767)	(6,313)
Loss on disposal of property, plant and equipment	(938)	(897)	(1,404)	(11,441)
Foreign exchange gain (loss)	(416)	(9,122)	(845)	(5,085)
Cost of inactive facilities	—	—	(2,359)	—
Other, net	(2,688)	4,888	154	(32,781)
Ordinary income	165,237	160,338	127,019	2,015,089
Extraordinary Income (Losses):				
Reversal of restoration costs for earthquake (Note 19)	5,491	—	—	66,971
Loss on impairment of fixed assets (Note 20)	(6,191)	—	—	(75,507)
Loss on disaster (Note 21)	(5,312)	(21,032)	—	(64,792)
Provision of allowance for doubtful accounts	(4,553)	—	—	(55,524)
Income before income taxes and minority interests	154,671	139,305	127,019	1,886,236
Income Taxes (Note 22)**:**				
Current	56,417	35,998	23,679	688,012
Prior years	—	(10,654)	—	—
Deferred	(2,259)	12,643	18,711	(27,549)
	54,157	37,987	42,390	660,462
Income before minority interests	100,513	101,318	84,629	1,225,773
Minority Interests in Earnings of Consolidated Subsidiaries	129	(1,199)	(776)	1,580
Net Income	¥ 100,643	¥ 100,119	¥ 83,852	$ 1,227,353
		Yen		U.S. dollars (Note 3)
Per Share (Note 2 (15)):				
Net income—primary	¥237.03	¥235.80	¥197.53	$2.891
Net income—fully diluted	—	235.80	197.50	—
Cash dividends	100.00	100.00	100.00	1.220
Weighted-Average Number of Shares Outstanding (Thousands)	424,594	424,598	424,513	424,594

The accompanying notes are an integral part of the statements.
Diluted net income per share for the fiscal year ended March 31, 2012 is not presented as there were no securities with dilutive effect.

Consolidated Statements of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2012	2011	2010	**2012**
Income before Minority Interests	**¥100,513**	¥101,318	¥ 84,629	**$1,225,773**
Other Comprehensive Income (Note 23)**:**				
Unrealized gains (losses) on available-for-sale securities	**(2,410)**	(3,466)	7,401	**(29,399)**
Deferred gains (losses) on hedges	**(211)**	136	147	**(2,583)**
Foreign currency translation adjustments	**(28,452)**	(56,951)	14,038	**(346,978)**
Share of other comprehensive income of associates accounted for by using equity method	**(2,988)**	(3,117)	2,227	**(36,446)**
Total other comprehensive income	**(34,063)**	(63,400)	23,814	**(415,407)**
Comprehensive Income	**¥ 66,450**	¥ 37,918	¥108,443	**$ 810,366**
(Breakdown)				
Comprehensive income attributable to owners of the parent	**¥67,547**	¥38,175	¥106,859	**$823,749**
Comprehensive income attributable to minority interests	**(1,097)**	(256)	1,583	**(13,383)**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of yen											
		Stockholders' Equity					Accumulated Other Comprehensive Income						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total	Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2009........	432,106	¥119,419	¥128,177	¥1,277,056	¥(41,613)	¥1,483,039	¥(1,776)	¥ (41)	¥(115,159)	¥(116,978)	¥2,446	¥38,846	¥1,407,353
Cash dividends (Note 13)........				(42,448)		(42,448)							(42,448)
Net income.............................				83,852		83,852							83,852
Changes in scope of consolidation....................				119		119							119
Purchase of treasury stock....					(31)	(31)							(31)
Disposal of treasury stock......				(166)	752	586							586
Net changes of items other than stockholders' equity.....							8,494	559	13,952	23,006	1,202	570	24,779
Balance at March 31, 2010........	432,106	119,419	128,177	1,318,413	(40,892)	1,525,118	6,717	517	(101,207)	(93,972)	3,648	39,417	1,474,212
Cash dividends (Note 13)........				(42,460)		(42,460)							(42,460)
Net income.............................				100,119		100,119							100,119
Changes in scope of consolidation....................				(28)		(28)							(28)
Purchase of treasury stock....					(25)	(25)							(25)
Disposal of treasury stock......				(0)	0	0							0
Net changes of items other than stockholders' equity.....							(3,442)	377	(58,879)	(61,943)	174	(619)	(62,388)
Balance at March 31, 2011........	432,106	119,419	128,177	1,376,043	(40,917)	1,582,724	3,275	895	(160,087)	(155,916)	3,822	38,798	1,469,429
Cash dividends (Note 13)........				**(42,459)**		**(42,459)**							**(42,459)**
Net income.............................				**100,643**		**100,643**							**100,643**
Changes in scope of consolidation....................				**1,466**		**1,466**							**1,466**
Purchase of treasury stock....					**(9)**	**(9)**							**(9)**
Disposal of treasury stock......				**(0)**	**1**	**1**							**1**
Net changes of items other than stockholders' equity.....							**(2,063)**	**(869)**	**(30,162)**	**(33,095)**	**(330)**	**(1,070)**	**(34,496)**
Balance at March 31, 2012........	**432,106**	**¥119,419**	**¥128,177**	**¥1,435,693**	**¥(40,925)**	**¥1,642,365**	**¥ 1,212**	**¥ 25**	**¥(190,249)**	**¥(189,011)**	**¥3,491**	**¥37,727**	**¥1,494,573**

	Thousands	Thousands of U.S. dollars (Note 3)											
		Stockholders' Equity					Accumulated Other Comprehensive Income						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total	Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2011........	432,106	$1,456,337	$1,563,142	$16,781,022	$(498,988)	$19,301,514	$ 39,944	$ 10,920	$(1,952,280)	$(1,901,415)	$46,617	$473,150	$17,919,865
Cash dividends (Note 13)........				**(517,799)**		**(517,799)**							**(517,799)**
Net income.............................				**1,227,353**		**1,227,353**							**1,227,353**
Changes in scope of consolidation....................				**17,880**		**17,880**							**17,880**
Purchase of treasury stock....					**(118)**	**(118)**							**(118)**
Disposal of treasury stock......				**(5)**	**19**	**13**							**13**
Net changes of items other than stockholders' equity.....							**(25,158)**	**(10,605)**	**(367,839)**	**(403,603)**	**(4,033)**	**(13,057)**	**(420,694)**
Balance at March 31, 2012........	**432,106**	**$1,456,337**	**$1,563,142**	**$17,508,452**	**$(499,087)**	**$20,028,844**	**$ 14,785**	**$ 315**	**$(2,320,120)**	**$(2,305,019)**	**$42,584**	**$460,092**	**$18,226,501**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2012	2011	2010	2012
Cash Flows from Operating Activities:				
Income before income taxes	**¥154,671**	¥ 139,305	¥ 127,019	**$ 1,886,236**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**82,868**	93,732	87,722	**1,010,595**
Loss on impairment of fixed assets	**6,191**	—	—	**75,507**
Increase in accrued retirement benefits	**2,663**	1,727	1,165	**32,484**
(Gain) loss on sales of investment securities	**(23)**	(1,202)	(164)	**(280)**
Loss on write-down of investment securities	**677**	52	403	**8,268**
Increase (decrease) in allowance for doubtful accounts	**4,496**	(166)	(26)	**54,838**
Interest and dividend income	**(4,509)**	(4,150)	(5,032)	**(54,989)**
Interest expenses	**517**	529	767	**6,313**
Exchange (gain) loss	**(395)**	3,918	(1,491)	**(4,818)**
Equity in earnings of affiliates	**(15,656)**	(12,627)	(9,994)	**(190,931)**
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	**2,110**	(7,274)	(52,339)	**25,738**
(Increase) decrease in inventories	**(77,517)**	(11,292)	27,710	**(945,332)**
Increase in long-term advance payment	**(2,354)**	(5,285)	(16,595)	**(28,714)**
Increase (decrease) in notes and accounts payable	**(1,585)**	20,822	15,855	**(19,336)**
Increase (decrease) in provision for loss on disaster	**(4,725)**	24,401	—	**(57,622)**
Other, net	**(6,472)**	(15,156)	2,184	**(78,928)**
Subtotal	**140,960**	227,333	177,184	**1,719,029**
Proceeds from interest and dividends	**8,553**	14,335	13,330	**104,315**
Payment of interest	**(513)**	(538)	(793)	**(6,267)**
Payment of income taxes	**(41,124)**	(33,277)	(18,182)	**(501,514)**
Income taxes refund	**—**	9,637	—	**—**
Payment for disaster losses	**(21,041)**	—	—	**(256,607)**
Insurance income on disaster	**9,733**	—	—	**118,696**
Net cash provided by operating activities	**96,567**	217,490	171,538	**1,177,652**
Cash Flows from Investing Activities:				
Purchases of securities	**(24,988)**	(26,044)	(21,970)	**(304,739)**
Proceeds from redemption of securities	**21,400**	16,900	52,612	**260,983**
Proceeds from sales of securities	**6,031**	5,576	—	**73,559**
Purchases of property, plant and equipment	**(80,320)**	(117,517)	(131,625)	**(979,516)**
Proceeds from sales of property, plant and equipment	**513**	410	9,227	**6,261**
Purchases of intangible fixed assets	**(904)**	(1,539)	(1,006)	**(11,025)**
Purchases of investments in securities	**(691)**	(3,104)	(6,170)	**(8,430)**
Proceeds from sales of investments in securities	**195**	2,203	1,141	**2,381**
Proceeds from redemption of investments in securities	**—**	3,181	2,017	**—**
Purchase of investments in subsidiaries resulting in changes in scope of consolidation	**—**	—	(2,044)	**—**
Payments of loans	**(7,595)**	(207)	(241)	**(92,630)**
Proceeds from collection of loans	**464**	34	78	**5,666**
Other, net	**(3,296)**	(11,898)	(4,854)	**(40,202)**
Net cash used for investing activities	**(89,190)**	(132,005)	(102,835)	**(1,087,693)**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term borrowings	**2,058**	(211)	90	**25,105**
Proceeds from long-term debt	**1,188**	13	16	**14,489**
Repayment of long-term debt	**(2,093)**	(5,387)	(8,083)	**(25,533)**
Purchase of treasury stock	**(9)**	(25)	(31)	**(118)**
Proceeds from sales of treasury stock	**1**	0	586	**13**
Cash dividends paid	**(42,459)**	(42,460)	(42,448)	**(517,799)**
Cash dividends paid to minority interests	**(879)**	(466)	(1,007)	**(10,728)**
Other, net	**20**	(84)	(82)	**251**
Net cash used for financing activities	**(42,174)**	(48,621)	(50,960)	**(514,320)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(7,026)**	(5,511)	1,762	**(85,693)**
Net Increase (Decrease) in Cash and Cash Equivalents	**(41,824)**	31,352	19,505	**(510,055)**
Cash and Cash Equivalents at Beginning of Year	**302,285**	270,443	251,044	**3,686,410**
Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation	**9,859**	489	(106)	**120,243**
Cash and Cash Equivalents at End of Year (Note 24)	**¥270,321**	¥ 302,285	¥ 270,443	**$ 3,296,598**

The accompanying notes are an integral part of the statements.

Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Shin-Etsu Chemical Co., Ltd. (the "Company") and its subsidiaries. The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law and in conformity with generally accepted accounting principles prevailing in Japan. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries. Before the fiscal year ended March 31, 2008, in general, no adjustments to the accounts of overseas consolidated subsidiaries were reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles followed by the Company.

Effective from the fiscal year ended March 31, 2009, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18, issued on May 17, 2006) has been applied, and accordingly some revisions have been made to the consolidated accounts as necessary.

The accompanying consolidated financial statements of the Company and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company, as required by the Financial Instruments and Exchange Law of Japan.

The presentation of the accompanying consolidated financial statements is made in conformity with the Consolidated Financial Statements Regulation (ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The amounts in the accompanying consolidated financial statements are stated in millions of yen. Amounts less than ¥1 million are omitted, except where otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The Company had 110 majority-owned subsidiaries as of March 31, 2012 (102 and 101 as of March 31, 2011 and 2010, respectively). The consolidated financial statements include the accounts of the Company and 77 (72 and 70 for 2011 and 2010, respectively) majority-owned subsidiaries (the "Companies"), of which the principal firms are listed on page 65 with their respective fiscal year-ends.

The remaining 33 (30 and 31 for 2011 and 2010, respectively) unconsolidated subsidiaries, including Shin-Etsu Electronics (Malaysia) Sdn. Bhd., whose total assets, net sales, net income and retained earnings in the aggregate are not significant compared with those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of subsidiaries whose fiscal year-ends are not in agreement with that of the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

Unrealized intercompany profits and losses among the Companies are entirely eliminated, and the portion thereof attributable to minority interests is charged to the minority interests.

Valuation of assets and liabilities of consolidated subsidiaries is based on full fair value accounting method.

Goodwill is amortized within 20 years on a straight-line basis.

Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd., Shin-Etsu Silicone (Nantong) Co., Ltd. and Shin-Etsu (Jiangsu) Optical Preform Co., Ltd., which had been unconsolidated subsidiaries during the fiscal year ended March 31, 2011, were newly included in the scope of consolidation due to increased importance. Dongguan Shin-Etsu Polymer Co., Ltd. and SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD., which were established during the fiscal year ended March 31, 2012, were also newly included in the scope of consolidation.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 33 (30 and 31 for 2011 and 2010, respectively) unconsolidated subsidiaries (majority-owned) and 17 (17 and 16 for 2011 and 2010, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 7 (7 and 7 for 2011 and 2010, respectively) major affiliates and the cost method is applied to investments in the remaining unconsolidated subsidiaries, including Shin-Etsu Electronics (Malaysia) Sdn. Bhd., and affiliates, including TATSUNO CHEMICAL INDUSTRIES INC., since they are not material for the consolidated financial statements.

The major unconsolidated subsidiaries and affiliates accounted for by the equity method are listed below:

Mimasu Semiconductor Industry Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.
Kashima Vinyl Chloride Monomer Co., Ltd.
Hemlock Semiconductor Corp.

(3) Translation of foreign currency transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates effective at the respective transaction dates.

Foreign currency deposits, receivables and payables denominated in foreign currencies are translated into yen at the exchange rate prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in the determination of net income for the year.

However, all of the overseas consolidated subsidiaries apply the current rate method to translate transactions and account balances in foreign currencies into their respective home currencies.

(4) Translation of foreign currency financial statements (accounts of overseas subsidiaries)

The translation of foreign currency financial statements of overseas subsidiaries into yen for consolidation purposes is made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

Under the BAC method, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Foreign currency translation adjustments" in the accompanying balance sheets as of March 31, 2012 and 2011.

(5) Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts using the historic percentage of bad debt loss against the balance of general receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(6) Inventories

The Company mainly applies the cost method based on the weighted-average method, which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

(7) Financial instruments

Securities:

Bonds held to maturity are stated at amortized cost using the straight-line method. Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the stockholders' equity at net-of-tax amounts. Other securities for which market quotations are unavailable are stated at cost, which is determined by the moving-average cost method.

Derivatives:

Derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

The Company and consolidated subsidiaries engage in foreign exchange contracts, currency swaps, interest rate swaps and earthquake derivatives.

Hedge accounting:

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are interest swaps, foreign exchange contracts and currency swaps. The related hedged items are interest rate transactions tied to funding activities, marketable securities and forecasted foreign currency transactions.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation and foreign currency fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items and not for speculation or dealing purposes.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(8) Property, plant and equipment

Depreciation of the Company and its domestic subsidiaries is principally computed by the declining-balance method, based on the estimated useful lives of assets. Depreciation of foreign subsidiaries is principally computed by the straight-line method over the estimated useful lives of the assets. The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

(9) Repairs and maintenance

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(10) Accrued bonuses for employees

Certain consolidated subsidiaries accrued the current fiscal year portion of the estimated amount of employees' bonuses to be paid in the subsequent period.

(11) Accrued bonuses for directors

The Company and its domestic consolidated subsidiaries accrued the current fiscal year portion of the estimated amount of directors' bonuses to be paid in the subsequent period.

(12) Provision for loss on disaster

The Company and certain domestic consolidated subsidiaries accrued expenses estimated to be incurred during or after the next fiscal year in order to undertake the restoration of assets damaged due to the disaster.

(13) Accrued retirement benefits

Pension and severance costs for employees are accrued based on the estimates of the pension obligations and the plan assets at the end of the fiscal year. The actuarial difference is amortized primarily over a five-year period, which is within the average remaining service period, using the straight-line method from the fiscal year when the difference was generated. The prior service cost is amortized primarily over a ten-year period, which is within the average remaining service period, using the straight-line method from the time when the difference was generated (see Note 11).

Effective from the fiscal year ended March 31, 2010, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) has been applied. This change has no impact on operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2010.

(14) Research and development costs

Research and development costs are charged to income as incurred.

(15) Income and dividends per share

Net income per share is based upon the weighted-average number of shares of common stock outstanding during each fiscal year. Net income per share adjusted for dilution represents net income per share assuming full conversion of all convertible debentures of the Company outstanding with related reduction in interest expenses.

(16) Dividends

Dividends are proposed by the Board of Directors and approved by the stockholders at meetings held subsequent to the fiscal year to which the dividends are applicable, and registered stockholders as of the end of such fiscal year are entitled to the subsequently declared dividends. Interim cash dividends are also paid (see Note 13).

Dividends charged to retained earnings in the accompanying consolidated statements of stockholders' equity represent dividends approved and paid during the year.

(17) Accrued retirement bonuses for directors

Certain domestic subsidiaries recognize the required amount of directors' retirement bonuses in accordance with an internal standard.

(18) Application of the "Accounting Standard for Accounting Changes and Error Corrections"

Effective from April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

(19) Consumption tax

The consumption tax withheld by the Company on sales of products is not included in the amount of net sales in the accompanying consolidated statements of income. The consumption tax borne by the Company on purchases of goods and services and on expenses is also not included in the related amounts in the accompanying consolidated statements of income.

(20) Reclassifications

Certain reclassifications have been made in the 2011 and 2010 financial statements to conform to the presentation for 2012.

3. UNITED STATES DOLLAR AMOUNTS

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥82 to US$1, the approximate effective rate of exchange on March 31, 2012. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥82 to US$1 or at any other rate.

4. NOTES AND ACCOUNTS RECEIVABLE AND PAYABLE

The Companies recognize settlements of trade notes receivable and trade notes payable when the bank clearance of the notes is actually made. As March 31, 2012 was a holiday for financial institutions, the following accounts include the unsettled balances of trade notes receivable and trade notes payable due on that date in the accompanying consolidated balance sheet as of March 31, 2012.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Notes and accounts receivable—trade			
Trade notes receivable	**¥2,509**	¥—	**$30,598**
Notes and accounts payable—trade			
Trade notes payable	**975**	—	**11,900**
Other	**8**	—	**106**

5. FINANCIAL INSTRUMENTS

(1) Overview of financial instruments

Management policy

In principle, our fund management methods are limited to deposits with financial institutions with high credit ratings and risk-free bonds, and our financing is implemented primarily through borrowings from banks.

Financial instruments, risks and risk management

Notes and accounts receivable-trade are exposed to credit risk of customers. With regard to credit risk generated by notes and accounts receivable-trade, each of our business departments not only controls and manages account due dates and balances, but also confirms credit standing of major customers periodically, making efforts to identify doubtful accounts as soon as possible.

Securities and investment securities are stocks in companies with business relationships, bonds held to maturity and also a certificate of deposit. Regarding securities and investment securities, we update regularly their fair value and the financial situation of the issuing companies. For stocks, we are also continually reviewing our stock holding status, considering the relationship with the issuing companies.

In order to hedge the foreign currency exchange risk associated with assets and liabilities denominated in foreign currencies and interest rate risk associated with financial assets and liabilities, derivative transactions such as interest rate swap transactions, currency swap transactions and foreign exchange forward contracts are utilized. All of our derivative transactions are implemented for the purpose of hedging risks generated in the ordinary course of business, and there are no derivative transactions entered into for trading or speculative purposes.

Supplementary explanation on the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values.

(2) Fair value of financial instruments

As of March 31, 2012 and 2011, book value, fair value and the difference between the two are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits	¥241,390	¥241,390	¥ —	$2,943,781	$2,943,781	$ —
(2) Notes and accounts receivable—trade	264,283	264,283	—	3,222,965	3,222,965	—
(3) Securities and investments in securities						
i) Bonds held to maturity	15,043	15,119	75	183,462	184,387	924
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	21,822	11,105	(10,716)	266,125	135,432	(130,692)
iii) Available-for-sale securities	119,581	119,581	—	1,458,312	1,458,312	—
(4) Long-term loans	3,583	3,811	228	43,703	46,486	2,782
Total	¥665,704	¥655,291	¥(10,412)	$8,118,351	$7,991,365	$(126,985)
Liabilities:						
(1) Notes and accounts payable—trade	¥109,378	¥109,378	¥ —	$1,333,889	$1,333,889	$ —
(2) Short-term borrowings	13,862	13,862	—	169,053	169,053	—
(3) Accounts payable—other	32,011	32,011	—	390,378	390,378	—
(4) Accrued expenses	45,375	45,375	—	553,358	553,358	—
(5) Accrued income taxes	34,758	34,758	—	423,885	423,885	—
(6) Long-term debt	1,454	1,449	(4)	17,734	17,675	(58)
Total	¥236,840	¥236,835	¥ (4)	$2,888,299	$2,888,240	$ (58)
Derivative transactions:						
Hedge accounting not applied	¥ 1,124	¥ 1,124	¥ —	$ 13,713	$ 13,713	$ —
Hedge accounting applied	(100)	(100)	—	(1,221)	(1,221)	—
Total	¥ 1,024	¥ 1,024	¥ —	$ 12,491	$ 12,491	$ —

	Millions of yen		
	2011		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits	¥244,002	¥244,002	¥ —
(2) Notes and accounts receivable—trade	270,499	270,499	—
(3) Securities and investments in securities			
i) Bonds held to maturity	16,900	17,020	120
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	22,088	12,585	(9,503)
iii) Available-for-sale securities	157,795	157,795	—
(4) Long-term loans	3,627	3,941	313
Total	¥714,914	¥705,845	¥(9,069)
Liabilities:			
(1) Notes and accounts payable—trade	¥110,753	¥110,753	¥ —
(2) Short-term borrowings	8,712	8,712	—
(3) Accounts payable—other	36,508	36,508	—
(4) Accrued expenses	37,486	37,486	—
(5) Accrued income taxes	21,072	21,072	—
(6) Long-term debt	5,548	5,609	61
Total	¥220,081	¥220,142	¥ 61
Derivative transactions:			
Hedge accounting not applied	¥ 1,722	¥ 1,722	¥ —
Hedge accounting applied	(146)	(146)	—
Total	¥ 1,575	¥ 1,575	¥ —

Notes: 1. Method for calculating fair value of financial instruments, and notes regarding securities and derivative transactions

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable—trade

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(3) Securities and investments in securities

These mainly consist of stocks and bonds. Fair value for stocks is based on a price settled on stock exchanges, while fair value for bonds is based on either a price settled on the exchanges or one offered from financial institutions that we have transactions with.

(4) Long-term loans

Fair value for long-term loans is calculated based on a future cash flow discounted at an appropriate rate such as mid-term and long-term interest rates with credit spreads, for all loans grouped by a certain period of time and credit rating under the credit exposure management.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term borrowings, (3) Accounts payable—other, (4) Accrued expenses and (5) Accrued income taxes. All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(6) Long-term debt

Fair value for long-term debt is calculated based on a present value of principal with interest added, discounted at an expected rate for new borrowings with the same terms.

Derivative transactions

Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are showed in parenthesis.

2. The following table summarizes financial instruments whose fair value is extremely difficult to estimate.

	Millions of yen		Thousands of U.S. dollars
Description	**2012**	2011	**2012**
Non-listed equity securities	**¥81,531**	¥70,239	**$ 994,283**
Investment securities, etc.	**5,484**	5,589	**66,879**
Total	**¥87,015**	¥75,828	**$1,061,162**

These securities do not carry quoted market prices. Since it is extremely difficult to estimate the fair value of these securities, their fair value is not disclosed.

3. Repayment schedule of monetary claims, available-for-sale securities with maturities and bonds held to maturity.

Description	Millions of yen 2012 Within one year	Over one year within five years	Over five years within ten years	Over ten years	Thousands of U.S. dollars 2012 Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	**¥241,346**	**¥ —**	**¥ —**	**¥ —**	**$2,943,251**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**264,283**	**—**	**—**	**—**	**3,222,965**	**—**	**—**	**—**
Securities and investments in securities	**89,325**	**6,182**	**164**	**—**	**1,089,336**	**75,390**	**2,002**	**—**
Long-term loans	**—**	**1,814**	**1,502**	**266**	**—**	**22,131**	**18,325**	**3,246**
Total	**¥594,955**	**¥7,996**	**¥1,666**	**¥266**	**$7,255,553**	**$97,521**	**$20,328**	**$3,246**

Description	Millions of yen 2011 Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥243,959	¥ —	¥ —	¥ —
Notes and accounts receivable	270,499	—	—	—
Securities and investments in securities	116,725	14,136	177	—
Long-term loans	—	1,582	1,537	507
Total	¥631,183	¥15,718	¥1,715	¥507

See Note 10 for repayment schedule of long-term debt.

6. SECURITIES

Securities as of March 31, 2012 and 2011 consisted of the following:

(1) Market value of bonds held to maturity

Description	Millions of yen 2012 Book value	2012 Fair value	2012 Difference	2011 Book value	2011 Fair value	2011 Difference	Thousands of U.S. dollars 2012 Book value	2012 Fair value	2012 Difference
Securities with fair value that exceeds book value	**¥ 7,043**	**¥ 7,129**	**¥ 85**	¥ 5,570	¥ 5,734	¥163	**$ 85,902**	**$ 86,950**	**$1,048**
Securities with fair value that does not exceed book value	**7,999**	**7,989**	**(10)**	11,330	11,286	(43)	**97,560**	**97,436**	**(123)**
Total	**¥15,043**	**¥15,119**	**¥ 75**	¥16,900	¥17,020	¥120	**$183,462**	**$184,387**	**$ 924**

(2) Available-for-sale securities with defined fair values

Description	Millions of yen 2012 Book value	2012 Acquisition cost	2012 Difference	2011 Book value	2011 Acquisition cost	2011 Difference	Thousands of U.S. dollars 2012 Book value	2012 Acquisition cost	2012 Difference
Securities with book value that exceeds acquisition cost	**¥ 27,119**	**¥ 19,623**	**¥ 7,495**	¥ 29,903	¥ 17,265	¥12,638	**$ 330,722**	**$ 239,313**	**$ 91,409**
Securities with book value that does not exceed acquisition cost	**92,462**	**97,799**	**(5,337)**	127,892	134,208	(6,316)	**1,127,590**	**1,192,676**	**(65,086)**
Total	**¥119,581**	**¥117,423**	**¥ 2,158**	¥157,795	¥151,473	¥ 6,322	**$1,458,312**	**$1,431,989**	**$ 26,323**

Note: Non-listed equity securities and other investment securities whose fair value is extremely difficult to estimate are excluded from the above. See Note 5 (2) note 2 for details.

7. DERIVATIVE TRANSACTIONS

(1) Derivative transactions to which hedge accounting is not applied:

1) Currency related:

As of March 31, 2012

	Millions of yen			Thousands of U.S. dollars		
Description	Contract amounts	Fair value	Unrealized gain (loss)	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sales Contracts:						
US$	**¥39,180**	**¥ 93**	**¥ 93**	**$477,806**	**$ 1,140**	**$ 1,140**
EUR	**2,805**	**(101)**	**(101)**	**34,212**	**(1,240)**	**(1,240)**
Other	**1,501**	**23**	**23**	**18,313**	**292**	**292**
Purchase Contracts:						
US$	**184**	**1**	**1**	**2,244**	**18**	**18**
EUR	**0**	**0**	**0**	**11**	**0**	**0**
Other	**1,417**	**(7)**	**(7)**	**17,290**	**(91)**	**(91)**
Foreign currency swap contracts						
Receive Japanese Yen, pay British Pounds	**4,161**	**1,117**	**1,117**	**50,754**	**13,629**	**13,629**
Total	**¥49,251**	**¥1,127**	**¥1,127**	**$600,633**	**$13,749**	**$13,749**

As of March 31, 2011

	Millions of yen		
Description	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US$	¥ 5,923	¥ 174	¥ 174
EUR	4,318	145	145
Other	434	(2)	(2)
Purchase Contracts:			
US$	1,017	21	21
EUR	15	0	0
Other	937	15	15
Foreign currency swap contracts			
Receive Japanese Yen, pay British Pounds	5,224	1,366	1,366
Total	¥17,872	¥1,722	¥1,722

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

2) Interest related:

As of March 31, 2012

	Millions of yen			Thousands of U.S. dollars		
Description	Contract amounts	Fair value	Unrealized gain (loss)	Contract amounts	Fair value	Unrealized gain (loss)
Interest rate swap contracts						
Receive floating, pay fixed	**¥199**	**¥(2)**	**¥(2)**	**$2,430**	**$(36)**	**$(36)**
Total	**¥199**	**¥(2)**	**¥(2)**	**$2,430**	**$(36)**	**$(36)**

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

(2) Derivative transactions to which hedge accounting is applied:

1) Currency related:

As of March 31, 2012

			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Nature of transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts:							
	Sales contracts							
	US$	Accounts receivable-trade	**¥1,612**	**¥ —**	**¥ (78)**	**$19,659**	**$ —**	**$ (958)**
	EUR	Accounts receivable-trade	**13**	**—**	**(0)**	**165**	**—**	**(1)**
	Purchase contracts							
	EUR	Accounts payable-trade	**5,650**	**2,715**	**115**	**68,913**	**33,118**	**1,404**
	US$	Accounts payable-trade	**93**	**—**	**5**	**1,135**	**—**	**67**
Deferral hedge accounting	Foreign currency swap contracts:							
	Receive US$ pay Thai Baht	Long-term debt	**¥ 802**	**¥ —**	**¥(142)**	**$ 9,783**	**$ —**	**$(1,732)**
Total			**¥8,171**	**¥2,715**	**¥(100)**	**$99,657**	**$33,118**	**$(1,221)**

As of March 31, 2011

			Millions of yen		
Hedge accounting method	Nature of transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts:				
	Sales contracts				
	EUR	Accounts receivable-trade	¥ 137	¥ —	¥ (3)
	Purchase contracts				
	EUR	Accounts payable-trade	4,184	—	388
	US$	Accounts payable-trade	75	—	0
Deferral hedge accounting	Foreign currency swap contracts:				
	Receive US$ pay Thai Baht	Long-term debt	¥2,777	¥884	¥(531)
Total			¥7,175	¥884	¥(146)

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

2) Interest related:

As of March 31, 2012

			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Nature of transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value	Contract amounts	Contract amounts over one year	Fair value
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive floating, pay fixed	Interest of investments in securities	**¥ 5,000**	**¥5,000**	**¥(110)**	**$ 60,975**	**$60,975**	**$(1,348)**
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive fixed, pay floating	Interest of investments in securities	**¥ 5,000**	**¥ —**	**¥ 25**	**$ 60,975**	**$ —**	**$ 305**
Total			**¥10,000**	**¥5,000**	**¥ (85)**	**$121,951**	**$60,975**	**$(1,043)**

As of March 31, 2011

			Millions of yen		
Hedge accounting method	Nature of transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive floating, pay fixed	Interest of investments in securities	¥ 5,000	¥ 5,000	¥(177)
Special hedge accounting treatment of interest rate swaps under JGAAP	Interest rate swap contracts: Receive fixed, pay floating	Interest of investments in securities	¥ 5,000	¥ 5,000	¥ 71
Total			¥10,000	¥10,000	¥(105)

Note: The fair value is provided by financial institutions with which the Company made the above contracts.

8. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Investments in securities (Stocks)	**¥83,128**	¥71,893	**$1,013,762**
Other (Investments in capital)	**3,873**	7,551	**47,234**

9. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2012 and 2011 are ¥1,393,976 million ($16,999,714 thousand) and ¥1,350,394 million, respectively.

10. SHORT-TERM BORROWINGS, LONG-TERM DEBT AND LEASE OBLIGATIONS

Short-term borrowings, long-term debt and lease obligations as of March 31, 2012 and 2011 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2012	2011	**2012**
Short-term borrowings	1.8%	—	**¥ 8,410**	¥ 6,570	**$102,570**
Current portion of long-term debt	2.0%	—	**5,451**	2,142	**66,483**
Current portion of lease obligations	—	—	**119**	83	**1,454**
Long-term debt, excluding current portion	1.0%	January 2013 – September 2021	**1,454**	5,548	**17,734**
Lease obligations, excluding current portion	—	January 2013 – December 2017	**296**	229	**3,617**
Total	—	—	**¥15,732**	¥14,574	**$191,860**

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2012.
2. Average interest rate of lease obligations is not shown as the balance includes the interest portion.
3. Repayment schedule 5 years subsequent to March 31, 2012 for long-term debt and lease obligations, excluding the current portion, is as follows:

	Millions of yen		Thousands of U.S. dollars	
	Long-term debt	Lease obligations	Long-term debt	Lease obligations
Years ending March 31,				
2014	**¥ 15**	**¥103**	**$ 194**	**$1,258**
2015	**61**	**85**	**748**	**1,048**
2016	**63**	**61**	**773**	**746**
2017	**1,213**	**33**	**14,798**	**412**

11. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have defined contribution pension plans (DC pension plans), defined benefit pension plans (transition from tax-qualified pension plans) and lump-sum severance payment plans as their defined benefit pension plans.

Certain overseas consolidated subsidiaries have defined benefit pension plans while others have defined contribution pension plans. Additionally, the Company has a "Retirement Benefit Trust."

The reserves for retirement benefits as of March 31, 2012 and 2011 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
(a) Benefit obligations	¥(33,191)	¥(28,984)	$(404,772)
(b) Pension assets	14,291	14,339	174,285
(c) Unfunded benefit obligations [(a)+(b)]	(18,899)	(14,644)	(230,487)
(d) Unrecognized actuarial differences	3,822	2,044	46,611
(e) Unrecognized prior service cost (negative) (Note 1)	14	(83)	179
(f) Net retirement benefit obligations [(c)+(d)+(e)]	(15,063)	(12,683)	(183,696)
(g) Prepaid pension expenses	1,624	1,435	19,814
(h) Accrued retirement benefits [(f)-(g)]	¥(16,687)	¥(14,119)	$(203,510)

Notes: 1. The Company and certain consolidated subsidiaries changed system from tax-qualified pension plans to defined contribution pension plans before prior fiscal year, so that prior service cost is generated.
2. Some subsidiaries adopt a simplified method for the calculation of benefit obligations.

Retirement Benefit Costs

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
(a) Service costs (Note 1)	¥2,810	¥2,471	$34,272
(b) Interest costs	1,056	905	12,888
(c) Expected return on plan assets	(720)	(593)	(8,781)
(d) Recognized actuarial loss	1,097	1,070	13,387
(e) Amortization of prior service cost	(66)	(83)	(809)
(f) Other (Note 2)	1,789	1,706	21,828
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥5,968	¥5,478	$72,785

Notes: 1. Retirement benefit costs for subsidiaries adopting a simplified method are reported in "Service costs."
2. "Other" is contributions for defined contribution pension plans.

Basic Assumptions for Calculating Benefit Obligations

(a) Period allocation method for estimating retirement benefit	Benefit/years of service approach
(b) Discount rate	Principally 2.0% (Principally 2.5% for fiscal year ended March 31, 2011)
(c) Expected rate of return on plan assets	Principally 2.5%
(d) Amortization of prior service cost	Principally 10 years
(e) Amortization of actuarial differences	Principally 5 years

12. COMMITMENT AND CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors of housing loans for employees and loans to unconsolidated subsidiaries, affiliates and others as of March 31, 2012 and 2011 in the aggregate amounts of ¥25 million ($315 thousand) and ¥31 million, respectively.

13. RETAINED EARNINGS

(1) Cash dividends from retained earnings represent dividends with an effective date during the fiscal year. Details of cash dividends are as follows:

Resolution	Type of shares	Record date	Effective date	Millions of yen Total amount of dividends	Yen Cash dividends per share	Thousands of U.S. dollars Total amount of dividends	U.S. dollars Cash dividends per share
Fiscal year ended March 31, 2012							
Ordinary general meeting of shareholders held on June 29, 2011	Common stock	March 31, 2011	June 30, 2011	**¥21,229**	**¥50.00**	**$258,900**	**$0.61**
Board of directors meeting held on October 27, 2011	Common stock	September 30, 2011	November 17, 2011	**21,229**	**50.00**	**258,899**	**0.61**
Total				**¥42,459**		**$517,799**	

Resolution	Type of shares	Record date	Effective date	Millions of yen Total amount of dividends	Yen Cash dividends per share
Fiscal year ended March 31, 2011					
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	March 31, 2010	June 30, 2010	¥21,230	¥50.00
Board of directors meeting held on October 28, 2010	Common stock	September 30, 2010	November 18, 2010	21,229	50.00
Total				¥42,460	
Fiscal year ended March 31, 2010					
Ordinary general meeting of shareholders held on June 26, 2009	Common stock	March 31, 2009	June 29, 2009	¥21,223	¥50.00
Board of directors meeting held on October 26, 2009	Common stock	September 30, 2009	November 18, 2009	21,225	50.00
Total				¥42,448	

(2) Cash dividends for the fiscal year ended March 31, 2012 with an effective date in the subsequent fiscal year are as follows:

Resolution	Type of shares	Source of dividends	Record date	Effective date	Millions of yen Total amount of dividends	Yen Cash dividends per share	Thousands of U.S. dollars Total amount of dividends	U.S. dollars Cash dividends per share
Fiscal year ended March 31, 2012								
Ordinary general meeting of shareholders held on June 28, 2012	Common stock	Retained earnings	March 31, 2012	June 29, 2012	**¥21,229**	**¥50.00**	**$258,898**	**$0.61**

14. SHARE SUBSCRIPTION RIGHTS

Fiscal year ended March 31, 2012

Issuer	Description	Type of shares subject to share subscription rights	Number of shares subject to share subscription rights				Millions of yen	Thousands of U.S. dollars
			Beginning Balance	Increase	Decrease	Ending Balance	Balance at March 31, 2012	Balance at March 31, 2012
The Company	Stock options (Note)	Common stock	**3,449,900**	**293,000**	**611,900**	**3,131,000**	**¥3,243**	**$39,558**
Consolidated subsidiary	—	—	**—**	**—**	**—**	**—**	**248**	**3,025**
Total							**¥3,491**	**$42,584**

Fiscal year ended March 31, 2011

Issuer	Description	Type of shares subject to share subscription rights	Number of shares subject to share subscription rights				Millions of yen
			Beginning Balance	Increase	Decrease	Ending Balance	Balance at March 31, 2011
The Company	Stock options (Note)	Common stock	3,283,100	272,000	105,200	3,449,900	¥3,474
Consolidated subsidiary	—	—	—	—	—	—	348
Total							¥3,822

Note: Share subscription rights not yet exercisable as of March 31, 2012 and 2011 are ¥231 million ($2,819 thousand) and ¥223 million, respectively.

15. STOCK OPTIONS

(1) Shin-Etsu Chemical Co., Ltd.

Stock option expenses for the fiscal years ended March 31, 2012 and 2011 of ¥231 million ($2,819 thousand) and ¥223 million, respectively, were included in selling, general and administrative expenses in the consolidated statements of income. Gains on forfeited stock options for the fiscal years ended March 31, 2012 and 2011 were ¥461 million ($5,633 thousand) and ¥78 million, respectively.

Stock options as of March 31, 2012 were as follows:

	2011	2010	2009
Grantees	75 Employees of the Company	68 Employees of the Company	18 Directors of the Company 64 Employees of the Company
Number of stock options granted by category of stock (in shares)	293,000 shares of Common Stock	272,000 shares of Common Stock	937,000 shares of Common Stock
Date of grant	July 27, 2011	October 29, 2010	August 6, 2009
Vesting conditions	No provision	No provision	No provision
Exercise period	July 28, 2012 through March 31, 2016	October 30, 2011 through March 31, 2015	August 7, 2010 through March 31, 2014

	2008	2007
Grantees	16 Directors of the Company 61 Employees of the Company	20 Directors of the Company 54 Employees of the Company
Number of stock options granted by category of stock (in shares)	826,000 shares of Common Stock	915,000 shares of Common Stock
Date of grant	July 14, 2008	July 2, 2007
Vesting conditions	No provision	No provision
Exercise period	July 15, 2009 through March 31, 2013	July 2, 2007 through March 31, 2012

Movement in stock options was as follows:

	Number of shares					
	2011	2010	2009	2008	2007	2006
Beginning balance	—	272,000	937,000	826,000	868,000	546,900
Granted	293,000	—	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	34,000	31,000	546,900
Unexercised balance	293,000	272,000	937,000	792,000	837,000	—
	Yen					
Exercise price	¥4,423	¥4,352	¥4,804	¥6,755	¥8,949	¥—
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date	789	823	1,235	943	1,057	—
	U.S. dollars					
Exercise price	$53.94	$53.07	$58.59	$82.38	$109.13	$—
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date	9.62	10.04	15.06	11.50	12.89	—

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Stock options granted on July 27, 2011	
Expected volatility	35.55%
Expected remaining life	2.84 years
Expected dividend	100 yen
Risk-free interest rate	0.209%

(2) Shin-Etsu Polymer Co., Ltd.

Stock option expenses for the fiscal years ended March 31, 2012 and 2011 of ¥20 million ($243 thousand) and ¥36 million, respectively, were included in selling, general and administrative expenses in the consolidated statements of income. Gains on forfeited stock options for the fiscal years ended March 31, 2012 and 2011 were ¥120 million ($1,471 thousand) and ¥7 million, respectively.

Stock options as of March 31, 2012 were as follows:

	2011	2010	2009
Grantees	9 Directors 13 Employees 8 Directors of its subsidiaries	9 Directors 14 Employees 10 Directors of its subsidiaries	9 Directors 12 Employees 13 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	440,000 shares of Common Stock	455,000 shares of Common Stock	445,000 shares of Common Stock
Date of grant	October 5, 2011	September 2, 2010	September 2, 2009
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2011 through November 30, 2016	December 1, 2010 through November 30, 2015	December 1, 2009 through November 30, 2014

	2008	2007	2006
Grantees	10 Directors 12 Employees 14 Directors of its subsidiaries	10 Directors 12 Employees 13 Directors of its subsidiaries	10 Directors 13 Employees 9 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	470,000 shares of Common Stock	465,000 shares of Common Stock	415,000 shares of Common Stock
Date of grant	August 7, 2008	August 8, 2007	September 7, 2006
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2008 through November 30, 2013	December 1, 2007 through November 30, 2012	December 1, 2006 through November 30, 2011

Movement in stock options was as follows:

	Number of shares					
	2011	2010	2009	2008	2007	2006
Beginning balance	—	455,000	445,000	445,000	430,000	370,000
Granted	440,000	—	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	5,000	5,000	370,000
Unexercised balance	440,000	455,000	445,000	440,000	425,000	—
	Yen					
Exercise price	¥414	¥505	¥653	¥632	¥1,643	¥1,838
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date	47	80	139	112	188	322
	U.S. dollars					
Exercise price	$5.05	$6.16	$7.96	$7.71	$20.04	$22.41
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date	0.57	0.98	1.70	1.37	2.29	3.93

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Stock options granted on October 5, 2011	
Expected volatility	30.781%
Expected remaining life	2.66 years
Expected dividend	12 yen
Risk-free interest rate	0.178%

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2012, 2011 and 2010 mainly consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Shipment expenses	**¥24,797**	¥27,019	¥24,839	**$302,411**
Salaries and allowances	**18,488**	18,407	18,474	**225,475**
Provision for bonuses for employees	**1,228**	1,344	1,300	**14,975**
Provision for bonuses for directors	**360**	400	558	**4,395**
Provision for retirement benefits	**565**	586	601	**6,894**
Provision for retirement bonuses for directors	**48**	63	21	**594**
Depreciation and amortization	**1,485**	1,546	1,720	**18,114**
Technical research expenses	**11,497**	13,223	10,330	**140,215**
(Including provision for retirement benefits)	**(118)**	(196)	(184)	**(1,439)**
Provision of allowance for doubtful accounts	**21**	311	411	**262**

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the years ended March 31, 2012, 2011 and 2010 were ¥35,725 million ($435,676 thousand), ¥37,321 million and ¥33,574 million, respectively.

18. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2012 and 2011 amounted to ¥95 million ($1,164 thousand) and ¥147 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the year ended March 31, 2012, which was computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥95 million ($1,164 thousand).

Pro forma information regarding leased property such as acquisition cost and accumulated depreciation is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Acquisition cost	**¥588**	¥860	**$7,181**
Accumulated depreciation	**557**	762	**6,800**
Net book value	**¥ 31**	¥ 98	**$ 380**

the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Future Lease Payments:			
Within one year	**¥21**	¥61	**$267**
Over one year	**9**	36	**113**
	¥31	¥98	**$380**

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Future Lease Payments:			
Within one year	**¥1,858**	¥2,529	**$22,669**
Over one year	**2,430**	3,134	**29,639**
	¥4,289	¥5,663	**$52,309**

19. REVERSAL OF RESTORATION COSTS FOR EARTHQUAKE

Reversal of restoration costs for the earthquake for the fiscal year ended March 31, 2012 relates to a gain on reversal of expenses estimated for restoration work on assets damaged due to the Great East Japan Earthquake in the fiscal year ended March 31, 2011.

20. LOSS ON IMPAIRMENT OF FIXED ASSETS

During the fiscal year ended March 31, 2012, the Company and its consolidated subsidiaries recognized impairment losses for the following asset category, recording a total of ¥6,191 million ($75,507 thousand) as Extraordinary losses. The fixed assets are grouped according to managerial accounting categories, which are regarded as the smallest units independently generating cash flows. However, idle assets not directly used to manufacture goods are accounted for individually.

Consolidated Subsidiary (Shin-Etsu Handotai Co., Ltd.)

			Millions of yen	Thousands of U.S. dollars
Location	Use	Asset category	**2012**	**2012**
Shirakawa Plant (Nishishirakawa-gun, Fukushima Prefecture)	Idle assets	Construction in progress	**¥6,191**	**$75,507**

The Company and its consolidated subsidiaries do not have any specific business plan for using the idle assets above because of the change in climate of the semiconductor silicon business. As a result, the book value of the asset has been marked down to its recoverable amount, which is calculated as the net sale amount.

21. LOSS ON DISASTER

Loss on disaster for the fiscal year ended March 31, 2012 relates to losses from the stoppage of operations and other costs incurred during the first half of the fiscal year due to the Great East Japan Earthquake.

Loss on disaster for the fiscal year ended March 31, 2011 relates to losses due to the Great East Japan Earthquake, consisting largely of expenses for restoration work in the amount of ¥16,654 million after deducting the estimated amount of insurance compensation.

22. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 40.4% for the years ended March 31, 2012, 2011 and 2010.

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred Tax Assets:			
Depreciation	**¥14,861**	¥16,757	**$181,240**
Unsettled accounts receivable and payable	**5,057**	2,060	**61,674**
Accrued retirement benefits	**4,293**	5,324	**52,354**
Maintenance cost	**3,681**	2,982	**44,891**
Accrued bonus allowance	**3,397**	3,662	**41,429**
Unrealized profit	**3,192**	3,148	**38,933**
Accrued enterprise taxes	**2,492**	1,556	**30,396**
Allowance for doubtful accounts	**1,639**	448	**19,992**
Tax loss carry forwards	**1,562**	331	**19,056**
Unrealized gains/losses on available-for-sale securities	**51**	0	**622**
Other	**19,434**	14,085	**237,011**
Valuation allowance	**(3,188)**	(3,464)	**(38,884)**
Total	**¥56,474**	¥46,893	**$688,719**
Deferred Tax Liabilities:			
Depreciation	**¥42,532**	¥37,138	**$518,687**
Unrealized gains/losses on available-for-sale securities	**770**	2,520	**9,398**
Reserve for special depreciation	**204**	78	**2,490**
Other	**3,658**	3,800	**44,610**
Total	**¥47,165**	¥43,537	**$575,185**
Net deferred tax assets	**¥ 9,309**	¥ 3,355	**$113,533**

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current assets: Deferred taxes, current	**¥ 34,599**	¥ 21,114	**$421,947**
Non-current assets: Deferred taxes, non-current	**19,937**	22,185	**243,138**
Current liabilities: Other	**(931)**	(446)	**(11,358)**
Non-current liabilities: Deferred taxes, non-current	**(44,295)**	(39,498)	**(540,194)**

Reconciliation of the difference between the statutory tax rate and effective rate on taxable income is as follows:

	2012	2011
Statutory tax rate	40.4%	40.4%
Equity in earnings of affiliates	(4.1)	(3.7)
Rate difference from foreign subsidiaries	(2.9)	(1.7)
Dividend income and other not taxable	(2.7)	(4.4)
Elimination of intercompany dividend income	2.7	4.4
Tax deduction for research expenses	(1.5)	(1.0)
Entertainment and other non-deductible expenses	0.3	0.3
Income taxes-Prior years	—	(7.6)
Adjustment on deferred tax assets due to change in income tax rate	2.1	—
Other, net	0.7	0.6
Effective tax rate	35.0	27.3

Income taxes - Prior years

Income taxes - Prior years consist of the refunded amount of corporation taxes paid in past fiscal years, after the Japanese and U.S. tax authorities reached an agreement settling a dispute about transfer pricing taxation.

Change in statutory effective tax rate

The statutory effective tax rate used for the calculation of deferred tax assets and liabilities has changed to 37.8% for tax differences expected to be realized during April 1, 2012 to March 31, 2015 and to 35.4% for tax differences expected to be realized after April 1, 2015 from the 40.4% used in previous fiscal year. This is due to revisions of tax laws in Japan promulgated on December 2, 2011, which reduce the corporate tax rate while, at the same time, implementing a temporary tax increase to fund the rebuilding of areas devastated by the Great East Japan Earthquake.

Due to the change in the tax rate, amounts of deferred tax assets (net of deferred tax liabilities) decreased by ¥3,157 million ($38,510 thousand), deferred income taxes increased by ¥3,244 million ($39,569 thousand) and unrealized gains on available-for-sale securities increased by ¥86 million ($1,058 thousand) as of and for the fiscal year ended March 31, 2012.

23. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gains (losses) on available-for-sale securities		
Amount arising during the year	¥ (4,837)	$ (58,995)
Reclassification adjustment for gains and losses included in net income	678	8,270
Unrealized gains (losses) on available-for-sale securities before tax	(4,159)	(50,725)
Tax effect	1,748	21,325
Unrealized gains (losses) on available-for-sale securities	(2,410)	(29,399)
Deferred gains (losses) on hedges		
Amount arising during the year	(179)	(2,186)
Reclassification adjustment for gains and losses included in net income	(172)	(2,103)
Deferred gains (losses) on hedges before tax	(351)	(4,290)
Tax effect	139	1,706
Deferred gains (losses) on hedges	(211)	(2,583)
Foreign currency translation adjustments		
Amount arising during the year	(28,452)	(346,978)
Share of other comprehensive income of associates accounted for by using the equity method		
Amount arising during the year	(2,501)	(30,510)
Reclassification adjustment for gains and losses included in net income	(486)	(5,935)
Share of other comprehensive income of associates accounted for by using the equity method	(2,988)	(36,446)
Total other comprehensive income	¥(34,063)	$(415,407)

24. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents on the consolidated statements of cash flows consist of cash in hand, deposits that can be withdrawn without limitation and liquid investments which are easily convertible into cash, and that mature within approximately three months from the acquisition date and have insignificant risk exposure in terms of fluctuation on value of the investments.

Reconciliations between cash and equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2012, 2011 and 2010 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	2012
Cash and time deposits	¥241,390	¥244,002	¥209,046	$2,943,781
Securities	89,301	116,714	109,761	1,089,040
Time deposits for which maturities are approximately over three months	(43,131)	(46,881)	(37,434)	(525,993)
Securities (maturities approximately over three months)	(17,238)	(11,550)	(10,930)	(210,229)
Cash and cash equivalents	¥270,321	¥302,285	¥270,443	$3,296,598

25. SEGMENT AND RELATED INFORMATION

1. Segment information

(1) Overview of reportable segment

The reportable segments in the Shin-Etsu Group are defined as individual units, where independent financial information is available and which are subject to regular review to evaluate their results and decide the allocation of management resources by the highest decision making body of the Company, such as the Managing Directors' Meeting.

The Shin-Etsu Group conducts business through each business division and affiliated companies according to each kind of product and service, consisting of the following six segments: "PVC/Chlor-Alkali Business," "Silicones Business," "Specialty Chemicals Business," "Semiconductor Silicon Business," "Electronics & Functional Materials Business" and "Diversified Business." Consequently, these six businesses are specified as reportable segments.

Main products and services of each segment are as follows:

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) Measurement of income, assets and liabilities of reportable segments

Income for each reportable segment denotes operating income, and the accounting methods applied are identical with those stated in "Basis of presenting financial statements." Internal revenues and transfers arising from transactions among the segments are based on market prices in general.

The Shin-Etsu Group does not allocate assets and liabilities to business segments.

(3) Information regarding income (loss) and others of reportable segments

	Millions of yen								
	2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment[1]	Figures in consolidated financial statements
Sales to outside customers	**¥324,030**	**¥135,461**	**¥87,127**	**¥229,656**	**¥177,792**	**¥ 93,663**	**¥1,047,731**	**¥ —**	**¥1,047,731**
Intersegment sales	**3,824**	**4,483**	**7,846**	**1**	**2,954**	**68,471**	**87,581**	**(87,581)**	**—**
Total	**¥327,854**	**¥139,944**	**¥94,974**	**¥229,657**	**¥180,746**	**¥162,134**	**¥1,135,312**	**¥(87,581)**	**¥1,047,731**
Segment income (Operating income)	**¥ 23,651**	**¥ 33,687**	**¥14,698**	**¥ 34,333**	**¥ 38,171**	**¥ 5,032**	**¥ 149,575**	**¥ 57**	**¥ 149,632**
Depreciation and amortization	**¥ 17,145**	**¥ 7,994**	**¥ 7,912**	**¥ 31,014**	**¥ 14,286**	**¥ 3,897**	**¥ 82,251**	**¥ (265)**	**¥ 81,985**
Amortization of goodwill	**¥ —**	**¥ —**	**¥ 882**	**¥ —**	**¥ —**	**¥ 0**	**¥ 882**	**¥ 0**	**¥ 882**
Increase in property, plant and equipment and intangible fixed assets	**¥ 18,333**	**¥ 14,421**	**¥13,002**	**¥ 23,639**	**¥ 14,579**	**¥ 3,356**	**¥ 87,333**	**¥ (168)**	**¥ 87,165**

	Millions of yen								
	2011								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment[1]	Figures in consolidated financial statements
Sales to outside customers	¥283,525	¥143,064	¥83,512	¥283,789	¥141,383	¥122,981	¥1,058,257	¥ —	¥1,058,257
Intersegment sales	26,827	4,056	6,649	5	3,464	65,380	106,384	(106,384)	—
Total	¥310,352	¥147,121	¥90,162	¥283,795	¥144,848	¥188,362	¥1,164,641	¥(106,384)	¥1,058,257
Segment income (Operating income)	¥ 19,674	¥ 34,057	¥12,914	¥ 38,864	¥ 36,118	¥ 7,340	¥ 148,970	¥ 251	¥ 149,221
Depreciation and amortization	¥ 12,806	¥ 7,992	¥ 7,253	¥ 45,963	¥ 14,705	¥ 4,366	¥ 93,088	¥ (280)	¥ 92,807
Amortization of goodwill	¥ —	¥ —	¥ 924	¥ —	¥ —	¥ 0	¥ 925	¥ —	¥ 925
Increase in property, plant and equipment and intangible fixed assets[2]	¥ 55,730	¥ 6,641	¥14,661	¥ 24,406	¥ 9,501	¥ 3,320	¥ 114,261	¥ (370)	¥ 113,890

	Millions of yen								
	2010								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment[1]	Figures in consolidated financial statements
Sales to outside customers	¥237,731	¥122,349	¥80,482	¥254,027	¥113,777	¥108,469	¥ 916,837	¥ —	¥916,837
Intersegment sales	3,128	3,347	5,354	43	2,197	91,554	105,626	(105,626)	—
Total	¥240,859	¥125,697	¥85,836	¥254,070	¥115,975	¥200,024	¥1,022,464	¥(105,626)	¥916,837
Segment income (Operating income)	¥ 19,577	¥ 24,916	¥13,902	¥ 22,631	¥ 30,746	¥ 6,782	¥ 118,556	¥ (1,340)	¥117,215
Depreciation and amortization	¥ 12,065	¥ 8,282	¥ 7,936	¥ 41,720	¥ 12,085	¥ 4,223	¥ 86,314	¥ (206)	¥ 86,108
Amortization of goodwill	¥ —	¥ —	¥ 1,622	¥ —	¥ —	¥ (8)	¥ 1,614	¥ —	¥ 1,614
Increase in property, plant and equipment and intangible fixed assets[3]	¥ 65,133	¥ 5,134	¥20,529	¥ 12,063	¥ 12,791	¥ 7,061	¥ 122,714	¥ (1,478)	¥121,235

	Thousands of U.S. dollars								
	2012								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment[1]	Figures in consolidated financial statements
Sales to outside customers	**$3,951,596**	**$1,651,965**	**$1,062,534**	**$2,800,687**	**$2,168,195**	**$1,142,232**	**$12,777,212**	**$ —**	**$12,777,212**
Intersegment sales	**46,634**	**54,678**	**95,686**	**17**	**36,028**	**835,020**	**1,068,066**	**(1,068,066)**	**—**
Total	**$3,998,231**	**$1,706,644**	**$1,158,220**	**$2,800,705**	**$2,204,223**	**$1,977,253**	**$13,845,279**	**$(1,068,066)**	**$12,777,212**
Segment income (Operating income)	**$ 288,434**	**$ 410,819**	**$ 179,248**	**$ 418,701**	**$ 465,510**	**$ 61,370**	**$ 1,824,085**	**$ 704**	**$ 1,824,789**
Depreciation and amortization	**$ 209,090**	**$ 97,498**	**$ 96,495**	**$ 378,228**	**$ 174,223**	**$ 47,532**	**$ 1,003,069**	**$ (3,240)**	**$ 999,828**
Amortization of goodwill	**$ —**	**$ —**	**$ 10,765**	**$ —**	**$ —**	**$ 0**	**$ 10,765**	**$ 1**	**$ 10,766**
Increase in property, plant and equipment and intangible fixed assets	**$ 223,579**	**$ 175,877**	**$ 158,565**	**$ 288,290**	**$ 177,795**	**$ 40,934**	**$ 1,065,043**	**$ (2,051)**	**$ 1,062,992**

Notes: (1) Elimination of intersegment transactions.

(2) During the fiscal year ended March 31, 2011, the Company made investments of ¥2,993 million and ¥3,000 million respectively in new non-consolidated subsidiaries established in China: Shin-Etsu Silicone (Nantong) Co., Ltd. (Silicones Business) and Shin-Etsu (Jiangsu) Optical Preform Co., Ltd. (Electronics & Functional Materials Business). The expenditures related to the investments are not included in the table above. The total capital expenditures for the fiscal year ended March 31, 2011, including these investments, amounted to ¥119,884 million. (Capital expenditures for Silicones Business and Electronics & Functional Materials Business amounted to ¥9,634 million and ¥12,501 million respectively.)

(3) During the fiscal year ended March 31, 2010, the Company acquired additional shares of CIRES, S.A., which was an affiliate under the equity method belonging to PVC/Chlor-Alkali Business. As a result, CIRES and its 3 subsidiaries were integrated as consolidated subsidiaries. The expenditure of ¥2,557 million for acquiring the additional shares is not included in the table above. When this expenditure is included, the amount of capital expenditure in the fiscal year ended March 31, 2010 amounted to ¥123,793 million. (Capital expenditures for PVC/Chlor-Alkali Business amounted to ¥67,691 million.)

2. Related information

Geographic information

(1) Net Sales

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net Sales			
Japan	**¥ 366,342**	¥ 386,128	**$ 4,467,593**
U.S.	**159,617**	153,059	**1,946,555**
China	**107,581**	113,709	**1,311,973**
Other	**414,189**	405,359	**5,051,089**
Total	**¥1,047,731**	¥1,058,257	**$12,777,212**

	Millions of yen
	2010
Net Sales	
Japan	¥354,773
North America	137,280
Asia/Oceania	259,159
Europe	98,472
Other Areas	67,152
Total	¥916,837

Note: Main countries or areas
North America....U.S., Canada
Asia/Oceania.......China, Taiwan, South Korea, Singapore, Thailand, Malaysia
Europe ....Germany, France
Other Areas ....Latin America, Middle East

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property, plant and equipment			
Japan	**¥247,440**	¥260,693	**$3,017,570**
U.S.	**261,857**	276,339	**3,193,381**
Other	**89,260**	83,301	**1,088,540**
Total	**¥598,558**	¥620,334	**$7,299,491**

3. Loss on impairment of fixed assets

	Millions of yen							
	2012							
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Total
Loss on impairment of fixed assets	**¥—**	**¥—**	**¥—**	**¥6,191**	**¥—**	**¥—**	**¥—**	**¥6,191**

	Thousands of U.S. dollars							
	2012							
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Total
Loss on impairment of fixed assets	**$—**	**$—**	**$—**	**$75,507**	**$—**	**$—**	**$—**	**$75,507**

Note: Loss on impairment of fixed assets for the fiscal year ended March 31, 2011 is not presented as the amount is immaterial.

4. Amortization of goodwill and unamortized balance

	Millions of yen							
	2012							
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	**¥—**	**¥—**	**¥ 882**	**¥—**	**¥—**	**¥ 0**	**¥ 0**	**¥ 882**
Unamortized balance	**¥—**	**¥—**	**¥9,020**	**¥—**	**¥—**	**¥—**	**¥—**	**¥9,020**

	Millions of yen							
	2011							
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥—	¥ 924	¥—	¥—	¥ 0	¥—	¥ 925
Unamortized balance	¥—	¥—	¥10,521	¥—	¥—	¥—	¥—	¥10,521

	Thousands of U.S. dollars							
	2012							
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	**$—**	**$—**	**$ 10,756**	**$—**	**$—**	**$ 0**	**$ 0**	**$ 10,766**
Unamortized balance	**$—**	**$—**	**$110,006**	**$—**	**$—**	**$—**	**$—**	**$110,006**

26. RELATED PARTY TRANSACTIONS

(1) Related party transactions

Transaction between the consolidated subsidiaries and a related party during the fiscal year ended March 31, 2012 is as follows:

Type	Affiliates
Name	Hemlock Semiconductor L.L.C.
Location	U.S.
Capital	$10 thousand
Business	Semiconductor Silicon Business
Percentage of Voting Rights	24.5% (indirect)
Relationship	Purchase of raw materials, Interlocking Directors
Transaction	Long-term advance payment
Transaction amount	¥7,395 million
Account	Investments and Other Assets "Other"
Balance	¥28,077 million

Note: Purchase prices are based on market value. Long-term advance payment has been made based on a contract.

(2) Significant Affiliates

Summarized financial information for all affiliates, including Hemlock Semiconductor Corp., accounted for by the equity method is as follows:

(Mimasu Semiconductor Industry Co., Ltd., Shin-Etsu Quartz Products Co., Ltd., Kashima Vinyl Chloride Monomer Co., Ltd., Admatechs Co., Ltd., Asia Silicones Monomer Limited, Hemlock Semiconductor Corp. and Hemlock Semiconductor L.L.C.)

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current Assets	¥239,296	$2,918,243
Fixed Assets	355,917	4,340,451
Current Liabilities	78,068	952,048
Long-Term Liabilities	301,273	3,674,060
Net Assets	215,871	2,632,573
Net Sales	260,114	3,172,121
Income before Income Taxes	84,191	1,026,719
Net Income	53,661	654,402

27. CHANGES IN THE METHOD OF PRESENTATION

Consolidated Statements of Income

The expense item "Cost of inactive facilities" in other expenses is included in "Other, net" for fiscal years ended March 31, 2012 and 2011. It is disclosed as an independent item for fiscal year ended March 31, 2010 as it is greater than ten percent of the total other expenses. The amounts of this expense for the fiscal years ended March 31, 2012 and 2011 are ¥49 million ($609 thousand) and ¥74 million, respectively.

Effective from the fiscal year ended March 31, 2011, "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008) and "Cabinet Office Ordinance for Partial Amendment of the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements" (Cabinet Office Ordinance No.5 issued on March 24, 2009) have been applied.

As a consequence, a new line item has been presented on the consolidated statements of income as "income before minority interests."

The amounts in the consolidated financial statements presented in the Annual Report issued for fiscal years ended March 31, 2011 and earlier were stated in millions of yen by rounding amounts less than ¥1 million. The amounts in the accompanying consolidated financial statements and the notes thereto, including the amounts for prior fiscal years, are stated in millions of yen with amounts less than ¥1 million omitted.

Consolidated Subsidiaries

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2012

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc.[1]	100.0	December 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc.[1]	100.0	December 31
Shin-Etsu Polymer Co., Ltd.	53.1	March 31
S.E.H. Malaysia Sdn. Bhd.[1][2]	100.0	December 31
Shin-Etsu PVC B.V.[1]	100.0	December 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG[1]	100.0	December 31
Shin-Etsu Handotai Europe, Ltd.[1]	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 29
Shin-Etsu Handotai Taiwan Co., Ltd.[1]	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 29
Shin-Etsu Astech Co., Ltd.	99.6	March 31
S-E, Inc.[1]	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd.[1]	100.0	December 31
Shin-Etsu Finetech Co., Ltd.[3]	100.0	March 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31
CIRES, S.A.[1]	100.0	December 31
Shin-Etsu Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.[1]	100.0	December 31
Shinano Polymer Co., Ltd.	100.0	March 31
Shin-Etsu Silicones (Thailand) Ltd.[1]	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.[1]	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 29
Shin-Etsu MicroSi, Inc.[1]	100.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd.[1]	93.3	December 31
Shin-Etsu Silicones of America, Inc.[1]	100.0	December 31
Shin-Etsu Silicones Europe B.V.[1]	100.0	December 31
Shin-Etsu Unit Co., Ltd.[3]	100.0	March 31
Shin-Etsu Opto Electronic Co., Ltd.[1]	80.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.[1]	100.0	December 31
Shin-Etsu Polymer Europe B.V.[1]	100.0	December 31
Shin-Etsu International Europe B.V.[1]	100.0	December 31

(1) Overseas subsidiary
(2) S.E.H. Malaysia Sdn. Bhd. issues non-voting shares
(3) Shin-Etsu Unit Co., Ltd. was absorbed into Shin-Etsu Finetech Co., Ltd. through an absorption-type merger as of April 1, 2012.

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Nihon Resin Co., Ltd.	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 29
Skyward Information Systems Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	77.4	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 29
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 29
Urawa Polymer Co., Ltd.	100.0	March 31
Niigata Polymer Company Limited	100.0	March 31
Shin-Etsu Polymer America, Inc.[1]	100.0	December 31
Naoetsu Sangyo Limited	100.0	March 31
San-Ace Co., Ltd.	100.0	March 31
Shinken Total Plant Co., Ltd.	100.0	February 29
Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Polymer India Pvt. Ltd.[1]	89.7	December 31
PT. Shin-Etsu Polymer Indonesia[1]	100.0	December 31
Shin-Etsu Polymer Singapore Pte. Ltd.[1]	100.0	December 31
Shin-Etsu Polymer Shanghai Co., Ltd.[1]	100.0	December 31
Shin-Etsu Polymer Hong Kong Co., Ltd.[1]	100.0	December 31
Shin-Etsu Polymer Hungary Kft.[1]	100.0	December 31
Dongguan Shin-Etsu Polymer Co., Ltd.[1]	100.0	December 31
Human Create Co., Ltd.	100.0	March 31
Suzhou Shin-Etsu Polymer Co., Ltd.[1]	71.4	December 31
S.E.H. (Shah Alam) Sdn. Bhd.[1]	100.0	December 31
SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD.[1]	100.0	December 31
Simcoa Operations Pty. Ltd.[1]	100.0	December 31
Shincor Silicones, Inc.[1]	100.0	December 31
K-Bin, Inc.[1]	100.0	December 31
Shin-Etsu Silicone (Nantong) Co., Ltd.[1]	100.0	December 31
Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.[1]	75.0	December 31

11 other consolidated subsidiaries

Report of Independent Auditors

The Board of Directors
Shin-Etsu Chemical Co., Ltd.

We have audited the accompanying consolidated financial statements of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin-Etsu Chemical Co., Ltd. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 28, 2012
Tokyo, Japan