

Eleven-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2003 through 2013

	Millions of yen				
	2003	2004	2005	2006	2007
For the year:					
Net sales	¥ 797,523	¥ 832,804	¥ 967,486	¥1,127,915	¥1,304,695
Cost of sales	585,220	619,085	715,143	831,333	933,199
Selling, general and administrative expenses	90,152	88,094	100,608	111,262	130,467
Operating income	122,149	125,625	151,734	185,320	241,028
Ordinary income	122,119	125,612	151,503	185,040	247,018
Net income	73,015	74,805	93,160	115,045	154,010
Capital expenditures	75,211	113,591	110,277	145,329	210,613
R&D costs	27,279	26,329	27,924	32,003	41,737
Depreciation and amortization	66,566	73,581	90,874	111,637	138,462
At year-end:					
Total assets	¥1,310,874	¥1,386,216	¥1,476,248	¥1,671,280	¥1,859,995
Working capital	409,262	401,878	444,935	572,205	628,986
Common stock	110,271	110,493	117,513	119,419	119,419
Net assets	—	—	—	—	1,360,315
Stockholders' equity	846,961	900,724	996,307	1,173,679	—
Interest-bearing debt	167,362	163,167	120,422	83,838	45,143
Per share (Yen and U.S. dollars):					
Net income—primary	¥ 173.13	¥ 177.25	¥ 219.10	¥ 266.63	¥ 357.78
Net income—fully diluted ²	169.36	173.52	216.11	266.07	357.32
Cash dividends	14.00	16.00	20.00	35.00	70.00
Payout ratio (%)	8.1	9.0	9.1	13.1	19.6
Net assets	2,014.11	2,140.23	2,329.47	2,730.94	3,065.80
General:					
Operating income to net sales ratio (%)	15.3	15.1	15.7	16.4	18.5
Net income to net sales ratio (%)	9.2	9.0	9.6	10.2	11.8
ROE (%) ³	8.8	8.6	9.8	10.6	12.4
ROA (%)	9.4	9.3	10.6	11.8	14.0
Equity ratio (%)	64.6	65.0	67.5	70.2	71.0
Number of employees	16,573	17,384	18,151	18,888	19,177
Number of shares issued (Thousands)	422,567	422,798	430,118	432,106	432,106

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥94 = US\$1, the approximate rate of exchange on March 31, 2013.

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.

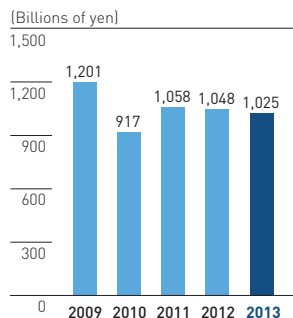
3. Stockholders' equity used for calculation of indices from the fiscal year ended March 31, 2007 consists of "stockholders' equity" and "accumulated other comprehensive income."

Millions of yen						Thousands of U.S. dollars
2008	2009	2010	2011	2012	2013	2013
¥1,376,364	¥1,200,813	¥ 916,837	¥1,058,257	¥1,047,731	¥1,025,409	\$10,908,610
946,940	853,433	700,902	803,574	798,592	769,427	8,185,402
142,278	114,453	98,718	105,460	99,505	98,938	1,052,534
287,145	232,927	117,215	149,221	149,632	157,043	1,670,672
300,040	250,533	127,019	160,338	165,237	170,207	1,810,715
183,580	154,731	83,852	100,119	100,643	105,714	1,124,623
268,479	159,406	123,793	119,884	87,165	86,841	923,843
47,944	37,469	33,574	37,321	35,725	37,671	400,765
141,269	119,457	87,722	93,732	82,868	80,961	861,294
¥1,918,544	¥1,684,944	¥1,769,139	¥1,784,166	¥1,809,841	¥1,920,903	\$20,435,140
638,806	606,632	612,447	638,493	694,803	832,878	8,860,407
119,419	119,419	119,419	119,419	119,419	119,419	1,270,422
1,483,669	1,407,353	1,474,212	1,469,429	1,494,573	1,623,176	17,267,831
—	—	—	—	—	—	—
34,045	23,827	20,052	14,574	15,732	13,929	148,181
¥ 426.63	¥ 362.39	¥ 197.53	¥ 235.80	¥ 237.03	¥ 248.94	\$ 2,648
426.35	362.35	197.50	235.80	—	248.92	2,648
90.00	100.00	100.00	100.00	100.00	100.00	1.064
21.1	27.6	50.6	42.4	42.2	40.2	40.2
3,344.17	3,218.28	3,370.56	3,360.39	3,422.93	3,709.19	39.459
20.9	19.4	12.8	14.1	14.3	15.3	15.3
13.3	12.9	9.1	9.5	9.6	10.3	10.3
13.3	11.0	6.0	7.0	7.0	7.0	7.0
15.9	13.9	7.4	9.0	9.2	9.1	9.1
75.0	81.1	80.9	80.0	80.3	82.0	82.0
20,241	19,170	16,955	16,302	16,167	17,712	17,712
432,106	432,106	432,106	432,106	432,106	432,106	432,106

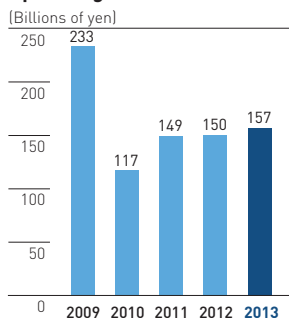
Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

Net Sales



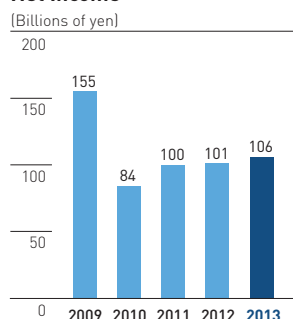
Operating Income



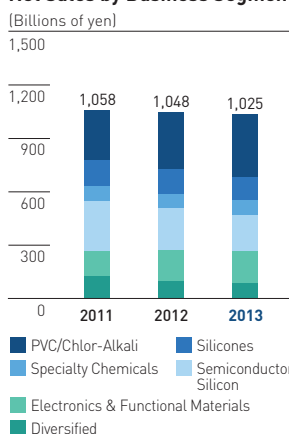
Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") was composed of Shin-Etsu Chemical Co., Ltd. (the "Company"), 119 subsidiaries and 16 affiliates as of March 31, 2013. 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.

Net Income



Net Sales by Business Segment

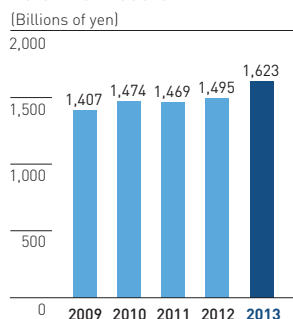


Consolidated Operating Performance

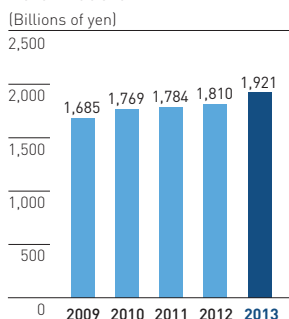
With regard to the world economy, during fiscal 2013 (April 1, 2012 to March 31, 2013), although a gradual recovery continued in the U.S., there was sluggishness in the European economy due to Europe's financial problems as well as a slowdown in economic growth in emerging markets such as China. As a whole, a deceleration trend continued in the world economy. On the other hand, with regard to the Japanese economy, although some encouraging signs have been seen since the start of the New Year, due in part to such affects as the slowdown of the world economy, overall, the severe situation of the Japanese economy continued.

Under these circumstances, the Shin-Etsu Group worked to carry out sales activities to its wide range of customers around the world, and at the same time, we assiduously worked on the development of new products in addition to enhancing our technologies and product quality. Furthermore, we endeavored to build a strong business foundation by such means as turning our new global plants into an advantageous strategic asset at an early stage and by focusing on stably securing raw materials.

Total Net Assets



Total Assets



Net Sales

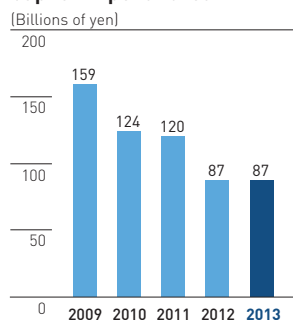
Net sales decreased 2.1% (¥22.3 billion) to ¥1,025.4 billion compared with the previous fiscal year.

Cost of Sales and Selling, General and Administrative Expenses

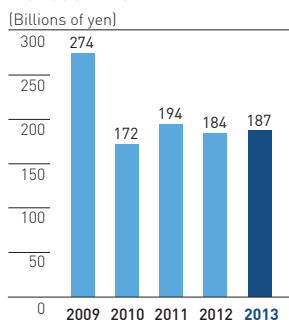
Cost of sales decreased 3.7% (¥29.2 billion) to ¥769.4 billion and the ratio of cost of sales to net sales decreased 1.2 percentage points to 75.0%. Selling, general and administrative (SG&A) expenses decreased 0.6% (¥0.6 billion) to ¥98.9 billion, but the ratio of these expenses to sales increased 0.1 of a percentage point to 9.6%.

Research and development costs, which are included in manufacturing costs and SG&A expenses, increased 5.4% (¥1.9 billion) to ¥37.7 billion and the ratio of these costs to net sales was 3.7%.

Capital Expenditures



Net Cash Flow*



* Net cash flow = Net income + Depreciation and amortization

Operating Income

Operating income increased 5.0% (¥7.4 billion) to ¥157.0 billion and the operating margin increased 1.0 percentage point to 15.3%.

Business Segment Overview

PVC/Chlor-Alkali Business

With regard to the PVC business, although the recovery in demand in the U.S. remained at a low level, Shintech in the U.S. maintained a high level of shipments by expanding sales to its customers worldwide, starting with its customers in Central and South America, and its business performance increased greatly. Shin-Etsu PVC in the Netherlands also maintained its good shipments. On the other hand, the tough business situation in Japan continued due in part to sluggish demand and the effect of raw material price increases.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 6.1% (¥19,667 million) to ¥343,697 million and operating income increased by 92.6% (¥21,901 million) to ¥45,552 million.

Silicones Business

With regard to the silicones business, sales in Japan were firm for product applications in the cosmetics field. However, sales of product applications for the automobile field were sluggish from the latter half of fiscal 2013. In addition, sales of product applications for electronics equipment generally continued to be slow. On the other hand, in our silicones business outside of Japan, the business was strongly affected by a slump in 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 4.7% (¥6,432 million) to ¥129,029 million and operating income decreased by 15.0% (¥5,044 million) to ¥28,643 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in Japan, this business continued to do well mainly in products for building and construction applications and for pharmaceutical-use, and in addition, the business of SE Tylose in Germany also continued to be firm, mainly in coating applications. The silicon metal business of Simcoa Operations in Australia was affected by a sluggish market.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 4.1% (¥3,601 million) to ¥83,526 million and operating income decreased by 1.6% (¥231 million) to ¥14,467 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, although the demand for some cutting-edge semiconductor devices, such as

smartphones and tablet PCs, remained strong, demand for consumer electronics products such as PCs and flat-panel TVs continued to be slow, and a severe business situation continued.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 11.8% (¥27,190 million) to ¥202,466 million and operating income decreased by 36.1% (¥12,396 million) to ¥21,937 million.

Electronics & Functional Materials Business

With regard to the rare earth magnets business, although shipments of products for such applications as in hard disk drives and air-conditioners continued to be slow, shipments of products for applications in automobiles were strong, starting with hybrid vehicles. The photoresist products business continued to be good, aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging continued to be firm. Shipments of optical fiber preform continued to be robust, contributed to by the operations of our new plant in China as well as continued strong demand.

As a result, compared with the previous fiscal year, net sales for this business segment increased by 2.8% (¥4,989 million) to ¥182,781 million and operating income increased by 7.1% (¥2,692 million) to ¥40,863 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of keypads for automobile applications remained steady; however, the company's business of semiconductor wafer-related containers continued to be slow due to sluggish demand for semiconductor devices.

As a result, compared with the previous fiscal year, net sales for this business segment decreased by 10.4% (¥9,756 million) to ¥83,907 million and operating income increased by 11.3% (¥569 million) to ¥5,601 million.

Other Income and Extraordinary Loss

Net non-operating income was ¥13.2 billion, which included equity in earnings of affiliates of ¥6.4 billion and a foreign exchange gain of ¥4.6 billion. There was a net extraordinary loss of ¥6.1 billion because of a ¥6.1 billion loss on sales of investments in securities. After these items, income before income taxes increased 6.1% (¥9.4 billion) to ¥164.1 billion.

Net Income

Income taxes totaled ¥56.8 billion. As a result, net income increased 5.0% (¥5.1 billion) to ¥105.7 billion and net income per share increased ¥11.91 to ¥248.94.

Analysis of Financial Position

Information on Assets, Liabilities and Net Assets

As the end of fiscal 2013, total assets were ¥1,920,903

million, ¥111,062 million higher than at the end of the previous fiscal year. This was primarily attributable to an increase in yen conversions of assets of overseas consolidated subsidiaries because of the weaker yen.

Total liabilities decreased by ¥17,541 million from the end of the previous fiscal year to ¥297,727 million.

Total net assets increased by ¥128,603 million to ¥1,623,176 million from the end of the previous fiscal year. Retained earnings increased because of net income of ¥105,714 million in fiscal 2013 and the foreign translation adjustments increased because of the yen's decline.

The stockholders' equity ratio was 82.0%, up 1.7 percentage points from 80.3% at the end of the previous fiscal year.

Status of Cash Flows

The balance of cash and cash equivalents at the end of fiscal 2013 totaled ¥363,028 million, an increase of 34.3% (¥92,707 million) compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥235,622 million, an increase of ¥139,055 million from the previous fiscal year. Major sources of cash were income before income taxes of ¥164,070 million, depreciation and amortization of ¥80,961 million, decrease in notes and accounts receivable of ¥32,803 million, and a ¥17,708 million decrease in inventories. A major use of cash was payment of income taxes of ¥64,004 million.

Cash Flows from Investing Activities

Net cash used for investing activities was ¥119,254 million, an increase of ¥30,064 million from the previous fiscal year. The primary use of cash was purchases of property, plant and equipment of ¥80,775 million.

Cash Flows from Financing Activities

Net cash used for financing activities was ¥44,011 million, an increase of ¥1,837 million from the previous fiscal year. Cash was used mainly for cash dividends paid of ¥42,459 million.

Capital Expenditures

Capital expenditures totaled ¥86.8 billion. The Electronics & Functional Materials Business segment accounted for the largest share of these expenditures at ¥22.0 billion. The main reasons are the construction of an LED packaging materials plant and a plant for separating and refining rare earths, which are used to make rare-earth magnets, both in Vietnam. Capital expenditures were ¥18.5 billion in the PVC/Chlor-Alkali Business, ¥15.4 billion in the Silicones Business, ¥14.8 billion in the Semiconductor Silicon

Business, ¥12.2 billion in the Specialty Chemicals Business and ¥4.2 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 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 fiscal 2013 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 the world economy is expected to move in the direction of gradual recovery, the situation of the world economy remains uncertain because of such issues as concerns about the effects of Europe's financial problems. In Japan as well, although a recovery in the economy is expected, the situation is such that it does not allow for optimism because of concerns about the future employment situation and the effects of the world economy's downward movement.

Facing such a situation, the Shin-Etsu Group will utilize the Group's overall strengths to expand its aggressive sales activities to a wide range of customers worldwide. Moreover, we will focus on enhancing productivity and product quality, and at the same time, we will cultivate new demand through the development of products that have special characteristics. Furthermore, we will aim to build a strong business foundation by accelerating global business development, by constructing manufacturing bases at the optimal locations, and, at the same time, by striving to assure the stable securing of 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 67.4% of the consolidated net sales of the Group in fiscal 2013, 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
ASSETS			
Current Assets:			
Cash and time deposits (Note 24).....	¥ 252,881	¥ 241,390	\$ 2,690,227
Notes and accounts receivable—trade (Note 4).....	243,785	264,283	2,593,466
Securities (Notes 6 and 24).....	214,380	89,301	2,280,645
Merchandise and finished goods.....	123,442	121,471	1,313,216
Work in process.....	11,012	9,386	117,155
Raw materials and supplies.....	134,922	129,450	1,435,341
Deferred taxes, current (Note 22).....	27,462	34,599	292,152
Other.....	31,290	59,344	332,879
Less: Allowance for doubtful accounts (Note 2 (5)).....	(6,664)	(6,982)	(70,898)
Total current assets.....	1,032,513	942,244	10,984,187
Fixed Assets:			
Property, Plant and Equipment (Notes 2 (8) and 9):			
Buildings and structures, net.....	164,885	156,403	1,754,097
Machinery and equipment, net.....	356,970	330,707	3,797,554
Land.....	70,110	65,400	745,857
Construction in progress.....	50,862	40,240	541,085
Other, net.....	6,822	5,807	72,584
Total property, plant and equipment.....	649,650	598,558	6,911,179
Intangible Fixed Assets:			
Goodwill.....	9,363	9,020	99,608
Other.....	5,274	4,566	56,110
Total intangible fixed assets.....	14,637	13,587	155,719
Investments and Other Assets:			
Investments in securities (Notes 6 and 8).....	129,551	154,161	1,378,209
Long-term loans.....	6,405	3,583	68,144
Deferred taxes, non-current (Note 22).....	14,590	19,937	155,220
Other (Note 8).....	73,900	77,786	786,176
Less: Allowance for doubtful accounts (Note 2 (5)).....	(347)	(17)	(3,695)
Total investments and other assets.....	224,101	255,451	2,384,054
Total fixed assets.....	888,389	867,596	9,450,953
Total Assets	¥1,920,903	¥1,809,841	\$20,435,140

The accompanying notes are an integral part of the statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Notes and accounts payable—trade (Note 4)	¥ 100,197	¥ 109,378	\$ 1,065,932
Short-term borrowings (Note 10)	5,507	13,862	58,589
Accounts payable-other	28,882	32,011	307,265
Accrued expenses	45,537	45,375	484,437
Accrued income taxes	6,220	34,758	66,177
Accrued bonuses for employees.....	1,995	1,887	21,226
Accrued bonuses for directors	372	360	3,965
Other (Notes 4 and 22).....	10,921	9,807	116,185
Total current liabilities	199,635	247,441	2,123,779
Long-Term Liabilities:			
Long-term debt (Note 10)	7,709	1,454	82,018
Deferred taxes, non-current (Note 22)	65,033	44,295	691,847
Accrued retirement benefits (Note 11)	20,185	16,687	214,734
Accrued retirement bonuses for directors.....	276	421	2,938
Other	4,887	4,967	51,990
Total long-term liabilities.....	98,091	67,827	1,043,529
Total Liabilities	297,727	315,268	3,167,309
Commitment and Contingent Liabilities (Note 12)			
Net Assets			
Stockholders' Equity:			
Common stock:.....	119,419	119,419	1,270,422
Authorized: 1,720,000,000 shares			
Issued: 432,106,693 shares as of March 31, 2013 and 2012, respectively			
Additional paid-in capital	128,234	128,177	1,364,192
Retained earnings (Note 13)	1,470,015	1,435,693	15,638,466
Less: Treasury stock, at cost	(39,167)	(40,925)	(416,673)
7,190,226 shares and 7,512,807 shares as of March 31, 2013 and 2012, respectively			
Total stockholders' equity	1,678,502	1,642,365	17,856,408
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7))	11,591	1,212	123,311
Deferred gains (losses) on hedges	174	25	1,858
Foreign currency translation adjustments.....	(114,172)	(190,249)	(1,214,601)
Total accumulated other comprehensive income.....	(102,406)	(189,011)	(1,089,431)
Share Subscription Rights	2,149	3,491	22,864
Minority Interests in Consolidated Subsidiaries	44,931	37,727	477,989
Total net assets.....	1,623,176	1,494,573	17,267,831
Total Liabilities and Net Assets	¥1,920,903	¥1,809,841	\$20,435,140

Consolidated Statements of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2013	2012	2011	2013
Net Sales (Note 25)	¥1,025,409	¥1,047,731	¥1,058,257	\$10,908,610
Cost of Sales (Notes 11 and 17)	769,427	798,592	803,574	8,185,402
Gross profit	255,981	249,138	254,682	2,723,207
Selling, General and Administrative Expenses (Notes 11, 16 and 17)....	98,938	99,505	105,460	1,052,534
Operating income (Note 25)	157,043	149,632	149,221	1,670,672
Other Income (Expenses):				
Interest income	2,417	2,978	2,800	25,720
Dividend income	1,560	1,530	1,350	16,596
Equity in earnings of affiliates	6,430	15,656	12,627	68,412
Interest expenses	(465)	(517)	(529)	(4,948)
Loss on disposal of property, plant and equipment	(690)	(938)	(897)	(7,350)
Foreign exchange gain (loss)	4,565	(416)	(9,122)	48,568
Other, net	(653)	(2,688)	4,888	(6,957)
Ordinary income	170,207	165,237	160,338	1,810,715
Extraordinary Income (Losses):				
Reversal of restoration costs for earthquake (Note 19)	—	5,491	—	—
Loss on sales of investment securities	(6,137)	—	—	(65,287)
Loss on impairment of fixed assets (Note 20)	—	(6,191)	—	—
Loss on disaster (Note 21)	—	(5,312)	(21,032)	—
Provision of allowance for doubtful accounts	—	(4,553)	—	—
Income before income taxes and minority interests	164,070	154,671	139,305	1,745,427
Income Taxes (Note 22):				
Current	37,059	56,417	35,998	394,249
Prior years	—	—	(10,654)	—
Deferred	19,696	(2,259)	12,643	209,535
	56,755	54,157	37,987	603,785
Income before minority interests	107,314	100,513	101,318	1,141,642
Minority Interests in Earnings of Consolidated Subsidiaries	(1,599)	129	(1,199)	(17,019)
Net Income	¥ 105,714	¥ 100,643	¥ 100,119	\$ 1,124,623
		Yen		U.S. dollars (Note 3)
Per Share (Note 2 (14)):				
Net income—primary	¥248.94	¥237.03	¥235.80	\$2.648
Net income—fully diluted	248.92	—	235.80	2.648
Cash dividends	100.00	100.00	100.00	1.064
Weighted-Average Number of Shares Outstanding (Thousands)	424,651	424,594	424,598	424,651

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, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2013	2012	2011	2013
Income before Minority Interests	¥107,314	¥100,513	¥101,318	\$1,141,642
Other Comprehensive Income (Note 23):				
Unrealized gains (losses) on available-for-sale securities	10,314	(2,410)	(3,466)	109,724
Deferred gains (losses) on hedges	238	(211)	136	2,541
Foreign currency translation adjustments.....	66,415	(28,452)	(56,951)	706,547
Share of other comprehensive income of associates accounted for by using equity method.....	6,499	(2,988)	(3,117)	69,140
Total other comprehensive income	83,467	(34,063)	(63,400)	887,954
Comprehensive Income	¥190,782	¥ 66,450	¥ 37,918	\$2,029,597
(Breakdown)				
Comprehensive income attributable to owners of the parent....	¥186,861	¥67,547	¥38,175	\$1,987,887
Comprehensive income attributable to minority interests	3,920	(1,097)	(256)	41,710

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										
	Number of shares of common stock	Stockholders' Equity					Accumulated Other Comprehensive Income					Total net assets	
		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
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 and equity method				(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 and equity method				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
Cash dividends (Note 13).....				(42,459)		(42,459)							(42,459)
Net income.....				105,714		105,714							105,714
Changes in scope of consolidation and equity method				(28,932)		(28,932)							(28,932)
Purchase of treasury stock....					(11)	(11)							(11)
Disposal of treasury stock.....			56		1,769	1,825							1,825
Net changes of items other than stockholders' equity.....							10,378	148	76,077	86,605	(1,342)	7,203	92,465
Balance at March 31, 2013	432,106	¥119,419	¥128,234	¥1,470,015	¥(39,167)	¥1,678,502	¥11,591	¥ 174	¥(114,172)	¥(102,406)	¥ 2,149	¥44,931	¥1,623,176

	Thousands		Thousands of U.S. dollars (Note 3)										
	Number of shares of common stock	Stockholders' Equity					Accumulated Other Comprehensive Income					Total net assets	
		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
Balance at March 31, 2012	432,106	\$1,270,422	\$1,363,592	\$15,273,330	\$(435,374)	\$17,471,970	\$ 12,897	\$ 275	\$(2,023,934)	\$(2,010,761)	\$ 37,147	\$401,357	\$15,899,714
Cash dividends (Note 13).....				(451,696)		(451,696)							(451,696)
Net income.....				1,124,623		1,124,623							1,124,623
Changes in scope of consolidation and equity method				(307,790)		(307,790)							(307,790)
Purchase of treasury stock....					(118)	(118)							(118)
Disposal of treasury stock.....			600		18,819	19,419							19,419
Net changes of items other than stockholders' equity.....							110,413	1,582	809,333	921,330	(14,283)	76,631	983,679
Balance at March 31, 2013	432,106	\$1,270,422	\$1,364,192	\$15,638,466	\$(416,673)	\$17,856,408	\$123,311	\$1,858	\$(1,214,601)	\$(1,089,431)	\$ 22,864	\$477,989	\$17,267,831

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, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2013	2012	2011	2013
Cash Flows from Operating Activities:				
Income before income taxes.....	¥ 164,070	¥154,671	¥ 139,305	\$1,745,427
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization.....	80,961	82,868	93,732	861,294
Loss on impairment of fixed assets.....	—	6,191	—	—
Increase in accrued retirement benefits.....	2,486	2,663	1,727	26,446
(Gain) loss on sales of investment securities.....	6,039	(23)	(1,202)	64,250
Loss on write-down of investment securities.....	485	677	52	5,164
Increase (decrease) in allowance for doubtful accounts.....	(210)	4,496	(166)	(2,240)
Interest and dividend income.....	(3,977)	(4,509)	(4,150)	(42,316)
Interest expenses.....	465	517	529	4,948
Exchange (gain) loss.....	323	(395)	3,918	3,436
Equity in earnings of affiliates.....	(6,430)	(15,656)	(12,627)	(68,412)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable.....	32,803	2,110	(7,274)	348,971
(Increase) decrease in inventories.....	17,708	(77,517)	(11,292)	188,391
Increase in long-term advance payment.....	7,521	(2,354)	(5,285)	80,015
Increase (decrease) in notes and accounts payable.....	(1,189)	(1,585)	20,822	(12,649)
Increase (decrease) in provision for loss on disaster.....	—	(4,725)	24,401	—
Other, net.....	(5,700)	(6,472)	(15,156)	(60,646)
Subtotal.....	295,355	140,960	227,333	3,142,080
Proceeds from interest and dividends.....	4,754	8,553	14,335	50,575
Payment of interest.....	(482)	(513)	(538)	(5,132)
Payment of income taxes.....	(64,004)	(41,124)	(33,277)	(680,899)
Income taxes refund.....	—	—	9,637	—
Payment for disaster losses.....	—	(21,041)	—	—
Insurance income on disaster.....	—	9,733	—	—
Net cash provided by operating activities.....	235,622	96,567	217,490	2,506,623
Cash Flows from Investing Activities:				
Purchases of securities.....	(66,030)	(24,988)	(26,044)	(702,451)
Proceeds from redemption of securities.....	18,810	21,400	16,900	200,106
Proceeds from sales of securities.....	5,189	6,031	5,576	55,206
Purchases of property, plant and equipment.....	(80,775)	(80,320)	(117,517)	(859,314)
Proceeds from sales of property, plant and equipment.....	285	513	410	3,037
Purchases of intangible fixed assets.....	(884)	(904)	(1,539)	(9,405)
Purchases of investments in securities.....	(7,581)	(691)	(3,104)	(80,658)
Proceeds from sales of investments in securities.....	898	195	2,203	9,561
Proceeds from redemption of investments in securities.....	22,978	—	3,181	244,450
Payments of loans.....	(5,368)	(7,595)	(207)	(57,109)
Proceeds from collection of loans.....	327	464	34	3,482
Other, net.....	(7,103)	(3,296)	(11,898)	(75,564)
Net cash used for investing activities.....	(119,254)	(89,190)	(132,005)	1,268,659
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term borrowings.....	(3,407)	2,058	(211)	(36,255)
Proceeds from long-term debt.....	6,517	1,188	13	69,339
Repayment of long-term debt.....	(5,482)	(2,093)	(5,387)	(58,327)
Purchase of treasury stock.....	(11)	(9)	(25)	(118)
Proceeds from sales of treasury stock.....	1,490	1	0	15,861
Cash dividends paid.....	(42,459)	(42,459)	(42,460)	(451,696)
Cash dividends paid to minority interests.....	(574)	(879)	(466)	(6,112)
Other, net.....	(84)	20	(84)	(894)
Net cash used for financing activities.....	(44,011)	(42,174)	(48,621)	(468,202)
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	16,899	(7,026)	(5,511)	179,786
Net Increase (Decrease) in Cash and Cash Equivalents.....	89,257	(41,824)	31,352	949,547
Cash and Cash Equivalents at Beginning of Year.....	270,321	302,285	270,443	2,875,755
Increase (Decrease) in Cash and Cash Equivalents Resulting from Changes in Scope of Consolidation.....	3,450	9,859	489	36,705
Cash and Cash Equivalents at End of Year (Note 24).....	¥ 363,028	¥270,321	¥ 302,285	\$3,862,009

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, 2013, 2012 and 2011

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 119 majority-owned subsidiaries as of March 31, 2013 (110 and 102 as of March 31, 2012 and 2011, respectively). The consolidated financial statements include the accounts of the Company and 87 (77 and 72 for 2012 and 2011, respectively) majority-owned subsidiaries (the "Companies"), of which the principal firms are listed on page 65 with their respective fiscal year-ends.

The remaining 32 (33 and 30 for 2012 and 2011, 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 inter-company 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.

Kashima Vinyl Chloride Monomer Co., Ltd., which had previously been an affiliate under the equity method, and Kashima Chlorine & Alkali Co., Ltd., which had previously been a non-equity-method affiliate, were newly included in the scope of consolidation due to the acquisition of additional shares and increased importance respectively. Shin-Etsu Magnetics Philippines, Inc., which had previously been an unconsolidated subsidiary, was newly included in the scope of consolidation due to increased importance.

Shin-Etsu Unit Co., Ltd., which had previously been a consolidated subsidiary, was excluded from the scope of consolidation due to an absorption-type merger with Shin-Etsu Finetech Co., Ltd., which is a consolidated subsidiary.

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The Company had 32 (33 and 30 for 2012 and 2011, respectively) unconsolidated subsidiaries (majority-owned) and 16 (17 and 17 for 2012 and 2011, respectively) affiliates (meaning 20% to 50% ownership of a company's equity interest). The equity method is applied to the investments in 4 (7 and 7 for 2012 and 2011, 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.

Hemlock Semiconductor Corp. and Hemlock Semiconductor L.L.C., which had previously been affiliates under the equity method, were excluded from the scope of equity method application due to a decrease in equity interests in these affiliates.

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.

(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, 2013 and 2012.

(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.

Effective from the fiscal year ended March 31, 2013, due to a revision of the corporate tax law in Japan, the Company and some of its domestic consolidated subsidiaries have applied a depreciation method based on the revised law for tangible assets purchased on or after April 1, 2012. The impact of this change on operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2013 is immaterial.

(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) 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.

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) 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.

(15) 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.

(16) Accrued retirement bonuses for directors

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

(17) 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.

(18) Consumption tax

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

(19) Reclassifications

Certain reclassifications have been made in the 2012 and 2011 financial statements to conform to the presentation for 2013.

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 ¥94 to US\$1, the approximate effective rate of exchange on March 31, 2013. 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 ¥94 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, 2013 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, 2013.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Notes and accounts receivable—trade			
Trade notes receivable	¥2,462	¥2,509	\$26,199
Notes and accounts payable—trade			
Trade notes payable	1,340	975	14,261
Other	20	8	216

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, 2013 and 2012, book value, fair value and the difference between the two are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits.....	¥252,881	¥252,881	¥ —	\$2,690,227	\$2,690,227	\$ —
(2) Notes and accounts receivable—trade	243,785	243,785	—	2,593,466	2,593,466	—
(3) Securities and investments in securities						
i) Bonds held to maturity.....	11,890	11,933	42	126,497	126,953	456
ii) Investments in and advances to unconsolidated subsidiaries and affiliates..	21,932	13,008	(8,924)	233,327	138,383	(94,943)
iii) Available-for-sale securities.....	265,575	265,575	—	2,825,273	2,825,273	—
(4) Long-term loans	6,405	6,644	238	68,144	70,686	2,541
Total	¥802,471	¥793,829	¥(8,642)	\$8,536,936	\$8,444,990	\$(91,945)
Liabilities:						
(1) Notes and accounts payable—trade.....	¥100,197	¥100,197	¥ —	\$1,065,932	\$1,065,932	\$ —
(2) Short-term borrowings.....	5,507	5,507	—	58,589	58,589	—
(3) Accounts payable—other	28,882	28,882	—	307,265	307,265	—
(4) Accrued expenses	45,537	45,537	—	484,437	484,437	—
(5) Accrued income taxes.....	6,220	6,220	—	66,177	66,177	—
(6) Long-term debt.....	7,709	7,665	(44)	82,018	81,546	(472)
Total	¥194,055	¥194,011	¥ (44)	\$2,064,421	\$2,063,949	\$ (472)
Derivative transactions:						
Hedge accounting not applied	¥ (1,376)	¥ (1,376)	¥ —	\$ (14,647)	\$ (14,647)	\$ —
Hedge accounting applied.....	416	416	—	4,435	4,435	—
Total	¥ (959)	¥ (959)	¥ —	\$ (10,211)	\$ (10,211)	\$ —

	Millions of yen		
	2012		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits.....	¥241,390	¥241,390	¥ —
(2) Notes and accounts receivable—trade	264,283	264,283	—
(3) Securities and investments in securities			
i) Bonds held to maturity.....	15,043	15,119	75
ii) Investments in and advances to unconsolidated subsidiaries and affiliates.....	21,822	11,105	(10,716)
iii) Available-for-sale securities.....	119,581	119,581	—
(4) Long-term loans	3,583	3,811	228
Total	¥665,704	¥655,291	¥(10,412)
Liabilities:			
(1) Notes and accounts payable—trade.....	¥109,378	¥109,378	¥ —
(2) Short-term borrowings.....	13,862	13,862	—
(3) Accounts payable—other	32,011	32,011	—
(4) Accrued expenses	45,375	45,375	—
(5) Accrued income taxes.....	34,758	34,758	—
(6) Long-term debt	1,454	1,449	(4)
Total	¥236,840	¥236,835	¥ (4)
Derivative transactions:			
Hedge accounting not applied	¥ 1,124	¥ 1,124	¥ —
Hedge accounting applied.....	(100)	(100)	—
Total	¥ 1,024	¥ 1,024	¥ —

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. Negotiable certificates of deposit are settled within a short time, and the fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above.

(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.

Description	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Non-listed equity securities.....	¥39,106	¥81,531	\$416,029
Investment securities, etc.	5,426	5,484	57,727
Total	¥44,533	¥87,015	\$473,757

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				Thousands of U.S. dollars			
	2013				2013			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥252,845	¥ —	¥ —	¥ —	\$2,689,842	\$ —	\$ —	\$ —
Notes and accounts receivable.....	243,785	—	—	—	2,593,466	—	—	—
Securities and investments in securities	214,380	2,141	5,000	—	2,280,645	22,784	53,191	—
Long-term loans.....	—	2,053	4,052	299	—	21,850	43,106	3,187
Total	¥711,011	¥4,195	¥9,052	¥299	\$7,563,954	\$44,635	\$96,298	\$3,187

Description	Millions of yen			
	2012			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥241,346	¥ —	¥ —	¥ —
Notes and accounts receivable.....	264,283	—	—	—
Securities and investments in securities	89,325	6,182	164	—
Long-term loans.....	—	1,814	1,502	266
Total	¥594,955	¥7,996	¥1,666	¥266

4. Repayment schedule of short-term borrowings, long-term debt and lease obligations.

Description	Millions of yen					
	2013					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term borrowings	¥5,238	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	268	365	396	1,537	5,360	49
Lease obligations	219	202	179	72	34	3
Total	¥5,727	¥567	¥575	¥1,610	¥5,395	¥53

Description	Thousands of U.S. dollars					
	2013					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term borrowings	\$55,731	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	2,857	3,892	4,214	16,356	57,025	530
Lease obligations	2,339	2,150	1,905	773	369	34
Total	\$60,928	\$6,042	\$6,120	\$17,130	\$57,395	\$564

Description	Millions of yen					
	2012					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term borrowings.....	¥ 8,410	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	5,451	15	61	63	1,213	99
Lease obligations	119	103	85	61	33	12
Total	¥13,981	¥119	¥147	¥124	¥1,247	¥112

6. SECURITIES

Securities as of March 31, 2013 and 2012 consisted of the following:

(1) Market value of bonds held to maturity

Description	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value.....	¥10,920	¥10,970	¥49	¥ 7,043	¥ 7,129	¥ 85	\$ 116,175	\$ 116,704	\$ 528
Securities with fair value that does not exceed book value.....	970	963	(6)	7,999	7,989	(10)	10,321	10,249	(71)
Total	¥11,890	¥11,933	¥42	¥15,043	¥15,119	¥ 75	\$126,497	\$126,953	\$456

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

Description	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value that exceeds acquisition cost.....	¥ 41,121	¥ 20,483	¥20,638	¥ 27,119	¥ 19,623	¥ 7,495	\$ 437,464	\$ 217,905	\$219,558
Securities with book value that does not exceed acquisition cost.....	224,454	226,955	(2,501)	92,462	97,799	(5,337)	2,387,808	2,414,424	(26,615)
Total	¥265,575	¥247,438	¥18,136	¥119,581	¥117,423	¥ 2,158	\$2,825,273	\$2,632,329	\$192,943

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, 2013

Description	Millions of yen			Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealized gain (loss)	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sales Contracts:						
US\$.....	¥41,135	¥(1,447)	¥(1,447)	\$437,609	\$(15,395)	\$(15,395)
EUR.....	2,946	(289)	(289)	31,350	(3,077)	(3,077)
Other.....	1,298	99	99	13,812	1,060	1,060
Purchase Contracts:						
US\$.....	346	(3)	(3)	3,691	(42)	(42)
EUR.....	10	0	0	109	9	9
Other.....	4,311	(344)	(344)	45,868	(3,662)	(3,662)
Foreign currency swap contracts						
Receive Japanese Yen, pay British Pounds...	3,099	610	610	32,970	6,492	6,492
Total	¥53,148	¥(1,373)	¥(1,373)	\$565,412	\$(14,615)	\$(14,615)

As of March 31, 2012

Description	Millions of yen		
	Contract amounts	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sales Contracts:			
US\$.....	¥39,180	¥ 93	¥ 93
EUR.....	2,805	(101)	(101)
Other.....	1,501	23	23
Purchase Contracts:			
US\$.....	184	1	1
EUR.....	0	0	0
Other.....	1,417	(7)	(7)
Foreign currency swap contracts			
Receive Japanese Yen, pay British Pounds.....	4,161	1,117	1,117
Total	¥49,251	¥1,127	¥1,127

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

2) Interest related:
As of March 31, 2013

Description	Millions of yen			Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealized gain (loss)	Contract amounts	Fair value	Unrealized gain (loss)
Interest rate swap contracts						
Receive floating, pay fixed.....	¥195	¥(2)	¥(2)	\$2,074	\$(31)	\$(31)
Total	¥195	¥(2)	¥(2)	\$2,074	\$(31)	\$(31)

As of March 31, 2012

Description	Millions of yen		
	Contract amounts	Fair value	Unrealized gain (loss)
Interest rate swap contracts			
Receive floating, pay fixed.....	¥199	¥(2)	¥(2)
Total	¥199	¥(2)	¥(2)

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, 2013

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			Thousands of U.S. dollars		
			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: Purchase contracts							
	EUR	Accounts payable-trade	¥2,715	¥—	¥416	\$28,890	\$—	\$4,435
Total			¥2,715	¥—	¥416	\$28,890	\$—	\$4,435

As of March 31, 2012

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen		
			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)
	EUR	Accounts receivable-trade	13	—	(0)
	Purchase contracts				
	EUR	Accounts payable-trade	5,650	2,715	115
	US\$	Accounts payable-trade	93	—	5
Deferral hedge accounting	Foreign currency swap contracts:				
	Receive US\$ pay Thai Baht	Long-term debt	¥ 802	¥ —	¥(142)
Total			¥8,171	¥2,715	¥(100)

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

2) Interest related:

As of March 31, 2013

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			Thousands of U.S. dollars		
			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	¥—	¥(39)	\$53,191	\$—	\$(416)
Total			¥5,000	¥—	¥(39)	\$53,191	\$—	\$(416)

As of March 31, 2012

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen		
			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)
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
Total			¥10,000	¥5,000	¥ (85)

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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Investments in securities (Stocks).....	¥55,927	¥83,128	\$594,968
Other (Investments in capital).....	5,211	3,873	55,442

9. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2013 and 2012 are ¥1,550,390 million (\$16,493,516 thousand) and ¥1,393,976 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, 2013 and 2012 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2013	2012	2013
Short-term borrowings	0.8%	—	¥ 5,238	¥ 8,410	\$ 55,731
Current portion of long-term debt	0.9%	—	268	5,451	2,857
Current portion of lease obligations.....	—	—	219	119	2,339
Long-term debt, excluding current portion	0.8%	February 2014 – February 2022	7,709	1,454	82,018
Lease obligations, excluding current portion	—	January 2014 – January 2019	492	296	5,234
Total	—	—	¥13,929	¥15,732	\$148,181

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2013.
 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, 2013 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,				
2015.....	¥ 365	¥202	\$ 3,892	\$2,150
2016.....	396	179	4,214	1,905
2017.....	1,537	72	16,356	773
2018.....	5,360	34	57,025	369

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, 2013 and 2012 are analyzed as follows:

Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
(a) Benefit obligations	¥(40,595)	¥(33,191)	\$(431,871)
(b) Pension assets	17,670	14,291	187,983
(c) Unfunded benefit obligations [(a)+(b)]	(22,925)	(18,899)	(243,887)
(d) Unrecognized actuarial differences	4,430	3,822	47,137
(e) Unrecognized prior service cost (negative) (Note 1).....	(37)	14	(403)
(f) Net retirement benefit obligations [(c)+(d)+(e)].....	(18,532)	(15,063)	(197,153)
(g) Prepaid pension expenses	1,652	1,624	17,580
(h) Accrued retirement benefits [(f)-(g)]	¥(20,185)	¥(16,687)	\$(214,734)

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
	2013	2012	2013
(a) Service costs (Note 1)	¥2,916	¥2,810	\$31,031
(b) Interest costs.....	1,035	1,056	11,020
(c) Expected return on plan assets.....	(592)	(720)	(6,305)
(d) Recognized actuarial loss.....	1,905	1,097	20,268
(e) Amortization of prior service cost	54	(66)	579
(f) Other (Note 2)	1,989	1,789	21,162
(g) Retirement benefit costs [(a)+(b)+(c)+(d)+(e)+(f)]	¥7,309	¥5,968	\$77,756

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 1.5% (Principally 2.0% for fiscal year ended March 31, 2012)
(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 of loans by unconsolidated subsidiaries, affiliates and others as of March 31, 2013 and 2012 in the aggregate amounts of ¥474 million (\$5,043 thousand) and ¥25 million, respectively.

In addition, as of March 31, 2013, the Companies had contingent liabilities arising from notes receivable discounted by banks in the amount of ¥131 million (\$1,399 thousand). There were no contingent liabilities arising from notes receivable discounted by banks as of March 31, 2012.

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		Thousands of U.S. dollars	
				Total amount of dividends	Cash dividends per share	Total amount of dividends	Cash dividends per share
Fiscal year ended March 31, 2013							
Ordinary general meeting of shareholders held on June 28, 2012	Common stock	March 31, 2012	June 29, 2012	¥21,229	¥50.00	\$225,847	\$0.53
Board of directors meeting held on October 25, 2012	Common stock	September 30, 2012	November 19, 2012	21,229	50.00	225,848	0.53
Total				¥42,459		\$451,696	

Resolution	Type of shares	Record date	Effective date	Millions of yen		Yen
				Total amount of dividends	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
Board of directors meeting held on October 27, 2011	Common stock	September 30, 2011	November 17, 2011	21,229		50.00
Total				¥42,459		
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		

(2) Cash dividends for the fiscal year ended March 31, 2013 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		Thousands of U.S. dollars	
					Total amount of dividends	Cash dividends per share	Total amount of dividends	Cash dividends per share
Fiscal year ended March 31, 2013								
Ordinary general meeting of shareholders held on June 27, 2013	Common stock	Retained earnings	March 31, 2013	June 28, 2013	¥21,245	¥50.00	\$226,019	\$0.53

Resolution	Type of shares	Source of dividends	Record date	Effective date	Millions of yen		Yen	
					Total amount of dividends	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	

14. SHARE SUBSCRIPTION RIGHTS

Fiscal year ended March 31, 2013

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, 2013	Balance at March 31, 2013		
The Company	Stock options (Note)	Common stock	3,131,000	—	1,215,700	1,915,300	¥1,964	\$20,903		
Consolidated subsidiary	—	—	—	—	—	—	184	1,961		
Total							¥2,149	\$22,864		

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	
			Beginning Balance	Increase	Decrease	Ending Balance	Balance at March 31, 2012	
The Company	Stock options (Note)	Common stock	3,449,900	293,000	611,900	3,131,000	¥3,243	
Consolidated subsidiary	—	—	—	—	—	—	248	
Total							¥3,491	

Note: There are no share subscription rights not yet exercisable as of March 31, 2013; as of March 31, 2012 are ¥231 million.

15. STOCK OPTIONS

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

Stock option expenses for the fiscal year ended March 31, 2013 were not recorded. The expenses for the fiscal year ended March 31, 2012 of ¥231 million 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, 2013 and 2012 were ¥944 million (\$10,046 thousand) and ¥461 million, respectively.

Stock options as of March 31, 2013 were as follows:

	2011	2010
Grantees	75 Employees of the Company	68 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
Date of grant	July 27, 2011	October 29, 2010
Vesting conditions	No provision	No provision
Exercise period	July 28, 2012 through March 31, 2016	October 30, 2011 through March 31, 2015

	2009	2008
Grantees	18 Directors of the Company 64 Employees of the Company	16 Directors of the Company 61 Employees of the Company
Number of stock options granted by category of stock (in shares)	937,000 shares of Common Stock	826,000 shares of Common Stock
Date of grant	August 6, 2009	July 14, 2008
Vesting conditions	No provision	No provision
Exercise period	August 7, 2010 through March 31, 2014	July 15, 2009 through March 31, 2013

Movement in stock options was as follows:

	Number of shares				
	2011	2010	2009	2008	2007
Beginning balance.....	293,000	272,000	937,000	792,000	837,000
Granted	—	—	—	—	—
Exercised.....	36,000	122,500	166,200	—	—
Forfeited.....	—	—	30,000	24,000	837,000
Unexercised balance.....	257,000	149,500	740,800	768,000	—
	Yen				
Exercise price	¥4,423	¥4,352	¥4,804	¥6,755	¥—
Weighted average market value per share at the exercise date.....	5,681.94	5,564.57	5,760.26	—	—
Fair value per share at the grant date.....	789	823	1,235	943	—
	U.S. dollars				
Exercise price	\$47.05	\$46.30	\$51.11	\$71.86	\$—
Weighted average market value per share at the exercise date.....	60.446	59.198	61.279	—	—
Fair value per share at the grant date.....	8.39	8.76	13.14	10.03	—

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

Stock option expenses for the fiscal years ended March 31, 2013 and 2012 of ¥16 million (\$171 thousand) and ¥20 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, 2013 and 2012 were ¥79 million (\$850 thousand) and ¥120 million, respectively.

Stock options as of March 31, 2013 were as follows:

	2012	2011	2010
Grantees	10 Directors 15 Employees 11 Directors of its subsidiaries	9 Directors 13 Employees 8 Directors of its subsidiaries	9 Directors 14 Employees 10 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	475,000 shares of Common Stock	440,000 shares of Common Stock	455,000 shares of Common Stock
Date of grant	September 5, 2012	October 5, 2011	September 2, 2010
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2012 through November 30, 2017	December 1, 2011 through November 30, 2016	December 1, 2010 through November 30, 2015

	2009	2008	2007
Grantees	9 Directors 12 Employees 13 Directors of its subsidiaries	10 Directors 12 Employees 14 Directors of its subsidiaries	10 Directors 12 Employees 13 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	445,000 shares of Common Stock	470,000 shares of Common Stock	465,000 shares of Common Stock
Date of grant	September 2, 2009	August 7, 2008	August 8, 2007
Vesting conditions	No provision	No provision	No provision
Exercise period	December 1, 2009 through November 30, 2014	December 1, 2008 through November 30, 2013	December 1, 2007 through November 30, 2012

Movement in stock options was as follows:

	Number of shares					
	2012	2011	2010	2009	2008	2007
Beginning balance.....	—	440,000	455,000	445,000	440,000	425,000
Granted	475,000	—	—	—	—	—
Exercised.....	—	—	—	—	—	—
Forfeited.....	—	—	—	—	—	425,000
Unexercised balance.....	475,000	440,000	455,000	445,000	440,000	—
	Yen					
Exercise price	¥342	¥414	¥505	¥653	¥632	¥1,643
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date.....	34	47	80	139	112	188
	U.S. dollars					
Exercise price	\$3.64	\$4.40	\$5.37	\$6.95	\$6.72	\$17.48
Weighted average market value per share at the exercise date	—	—	—	—	—	—
Fair value per share at the grant date.....	0.36	0.50	0.85	1.48	1.19	2.00

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

Stock options granted on September 5, 2012

Expected volatility.....	29.421%
Expected remaining life	2.74 years
Expected dividend.....	9 yen
Risk-free interest rate	0.095%

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2013, 2012 and 2011 mainly consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Shipment expenses	¥24,983	¥24,797	¥27,019	\$265,780
Salaries and allowances	18,843	18,488	18,407	200,460
Provision for bonuses for employees	1,235	1,228	1,344	13,142
Provision for bonuses for directors.....	373	360	400	3,968
Provision for retirement benefits	582	565	586	6,194
Provision for retirement bonuses for directors	52	48	63	559
Depreciation and amortization	1,523	1,485	1,546	16,210
Technical research expenses	11,740	11,497	13,223	124,893
<Including provision for retirement benefits>	<115>	<118>	<196>	<1,228>
Provision of allowance for doubtful accounts.....	150	21	311	1,602

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the years ended March 31, 2013, 2012 and 2011 were ¥37,671 million (\$400,765 thousand), ¥35,725 million and ¥37,321 million, respectively.

18. LEASE TRANSACTIONS

Lease expenses on finance lease contracts without ownership-transfer charged to income for the years ended March 31, 2013 and 2012 amounted to ¥21 million (\$225 thousand) and ¥95 million, respectively. Lease expenses corresponding to depreciation expenses, not charged to income, for the years ended March 31, 2013 and 2012 which were computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥21 million (\$225 thousand) and ¥95 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Acquisition cost	¥76	¥588	\$812
Accumulated depreciation	66	557	708
Net book value	¥ 9	¥ 31	\$103

The portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Future Lease Payments:			
Within one year	¥6	¥21	\$ 70
Over one year	3	9	32
	¥9	¥31	\$103

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Future Lease Payments:			
Within one year	¥1,599	¥1,858	\$17,016
Over one year	2,130	2,430	22,666
	¥3,730	¥4,289	\$39,682

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 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.)

Location	Use	Asset category	Millions of yen
			2012
Shirakawa Plant (Nishishirakawa-gun, Fukushima Prefecture)	Idle assets	Construction in progress	¥6,191

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 37.8% for the year ended March 31, 2013, 40.4% for the year ended March 31, 2012.

Tax effects of material temporary differences and loss carry forwards which resulted in deferred tax assets or liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred Tax Assets:			
Depreciation.....	¥ 13,090	¥14,861	\$ 139,260
Accrued retirement benefits.....	5,030	4,293	53,511
Accrued bonus allowance.....	3,531	3,397	37,567
Unrealized profit.....	3,488	3,192	37,113
Maintenance cost.....	3,287	3,681	34,975
Unsettled accounts receivable and payable.....	3,018	5,057	32,109
Allowance for doubtful accounts.....	1,927	1,639	20,508
Tax loss carry forwards.....	1,199	1,562	12,762
Accrued enterprise taxes.....	687	2,492	7,319
Unrealized gains/losses on available-for-sale securities.....	58	51	627
Other.....	16,629	19,434	176,904
Valuation allowance.....	(3,777)	(3,188)	(40,184)
Total.....	¥ 48,172	¥56,474	\$ 512,474
Deferred Tax Liabilities:			
Depreciation.....	¥ 60,329	¥42,532	\$ 641,799
Unrealized gains/losses on available-for-sale securities.....	6,488	770	69,027
Reserve for special depreciation.....	153	204	1,634
Other.....	4,924	3,658	52,391
Total.....	¥ 71,896	¥47,165	\$ 764,852
Net deferred tax assets.....	¥(23,723)	¥ 9,309	\$(252,378)

Net Deferred Tax Assets are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets: Deferred taxes, current.....	¥ 27,462	¥ 34,599	\$292,152
Non-current assets: Deferred taxes, non-current.....	14,590	19,937	155,220
Current liabilities: Other.....	(742)	(931)	(7,903)
Non-current liabilities: Deferred taxes, non-current.....	(65,033)	(44,295)	(691,847)

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

	2013	2012
Statutory tax rate.....	37.8%	40.4%
Rate difference from foreign subsidiaries	(2.3)	(2.9)
Equity in earnings of affiliates	(1.5)	(4.1)
Dividend income and other not taxable.....	(1.4)	(2.7)
Elimination of intercompany dividend income.....	1.3	2.7
Tax deduction for research expenses	(1.0)	(1.5)
Entertainment and other non-deductible expenses.....	0.2	0.3
Adjustment on deferred tax assets due to change in income tax rate	—	2.1
Other, net.....	1.5	0.7
Effective tax rate	34.6	35.0

23. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains (losses) on available-for-sale securities			
Amount arising during the year	¥15,512	¥ (4,837)	\$165,025
Reclassification adjustment for gains and losses included in net income.....	459	678	4,887
Unrealized gains (losses) on available-for-sale securities before tax.....	15,971	(4,159)	169,913
Tax effect.....	(5,657)	1,748	(60,188)
Unrealized gains (losses) on available-for-sale securities	10,314	(2,410)	109,724
Deferred gains (losses) on hedges			
Amount arising during the year	324	(179)	3,452
Reclassification adjustment for gains and losses included in net income.....	55	(172)	594
Deferred gains (losses) on hedges before tax.....	380	(351)	4,046
Tax effect.....	(141)	139	(1,504)
Deferred gains (losses) on hedges	238	(211)	2,541
Foreign currency translation adjustments			
Amount arising during the year	66,415	(28,452)	706,547
Share of other comprehensive income of associates accounted for by using the equity method			
Amount arising during the year	5,070	(2,501)	53,941
Reclassification adjustment for gains and losses included in net income.....	1,428	(486)	15,199
Share of other comprehensive income of associates accounted for by using the equity method.....	6,499	(2,988)	69,140
Total other comprehensive income.....	¥83,467	¥(34,063)	\$887,954

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 cash equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2013, 2012 and 2011 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Cash and time deposits.....	¥252,881	¥241,390	¥244,002	\$2,690,227
Securities.....	214,380	89,301	116,714	2,280,645
Time deposits for which maturities are approximately over three months	(47,438)	(43,131)	(46,881)	(504,669)
Securities (maturities approximately over three months).....	(56,794)	(17,238)	(11,550)	(604,194)
Cash and cash equivalents	¥363,028	¥270,321	¥302,285	\$3,862,009

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, Packaging 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 consolidated 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								
	2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers.....	¥343,697	¥129,029	¥83,526	¥202,466	¥182,781	¥ 83,907	¥1,025,409	¥ —	¥1,025,409
Intersegment sales	3,385	4,608	8,122	3	3,234	60,900	80,254	(80,254)	—
Total	¥347,082	¥133,638	¥91,649	¥202,470	¥186,015	¥144,808	¥1,105,663	¥(80,254)	¥1,025,409
Segment income (Operating income)	¥ 45,552	¥ 28,643	¥14,467	¥ 21,937	¥ 40,863	¥ 5,601	¥ 157,065	¥ (22)	¥ 157,043
Depreciation and amortization.....	¥ 20,416	¥ 8,245	¥ 8,105	¥ 26,193	¥ 13,754	¥ 3,708	¥ 80,424	¥ (284)	¥ 80,139
Amortization of goodwill ...	¥ —	¥ —	¥ 815	¥ —	¥ —	¥ 6	¥ 822	¥ 0	¥ 822
Increase in property, plant and equipment and intangible fixed assets ⁽²⁾	¥ 18,478	¥ 15,374	¥12,193	¥ 14,828	¥ 18,209	¥ 4,161	¥ 83,245	¥ (226)	¥ 83,018

	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 ⁽³⁾	¥ 55,730	¥ 6,641	¥14,661	¥ 24,406	¥ 9,501	¥ 3,320	¥ 114,261	¥ (370)	¥ 113,890

	Thousands of U.S. dollars								Figures in consolidated financial statements
	2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total	Adjustment ⁽¹⁾	
Sales to outside customers.....	\$3,656,357	\$1,372,655	\$888,580	\$2,153,902	\$1,944,479	\$892,635	\$10,908,610	\$ —	\$10,908,610
Intersegment sales.....	36,012	49,025	86,412	36	34,405	647,876	853,768	(853,768)	—
Total	\$3,692,369	\$1,421,680	\$974,993	\$2,153,939	\$1,978,885	\$1,540,511	\$11,762,378	\$(853,768)	\$10,908,610
Segment income (Operating income).....	\$484,597	\$304,718	\$153,910	\$233,375	\$434,721	\$59,590	\$1,670,913	\$(241)	\$1,670,672
Depreciation and amortization.....	\$217,201	\$87,719	\$86,226	\$278,650	\$146,324	\$39,455	\$855,578	\$(3,031)	\$852,547
Amortization of goodwill.....	\$ —	\$ —	\$8,673	\$ —	\$ —	\$72	\$8,745	\$1	\$8,746
Increase in property, plant and equipment and intangible fixed assets ⁽²⁾	\$196,575	\$163,557	\$129,716	\$157,753	\$193,713	\$44,272	\$885,590	\$(2,414)	\$883,175

Notes: [1] Elimination of intersegment transactions.

[2] During the fiscal year ended March 31, 2013, the Company made investments of ¥3,822 million in unconsolidated subsidiaries established: Shin-Etsu (Changting) Technology Co., Ltd., Shin-Etsu Electronics Materials Vietnam Co., Ltd. and Shin-Etsu Magnetic Materials Vietnam Co., Ltd. The expenditures related to the investments are not included in the table above. The total capital expenditures for the fiscal year ended March 31, 2013, including these investments, amounted to ¥86,841 million. (Capital expenditures for Electronics & Functional Materials Business amounted to ¥22,031 million.)

[3] During the fiscal year ended March 31, 2011, the Company made investments of ¥2,993 million and ¥3,000 million respectively in new unconsolidated 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.)

2. Related information

Geographic information

(1) Net Sales

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Net Sales				
Japan.....	¥334,288	¥366,342	¥386,128	\$3,556,264
U.S.	190,433	159,617	153,059	2,025,883
China.....	100,109	107,581	113,709	1,064,994
Asia / Oceania excluding China.....	194,891	180,523	191,743	2,073,318
Europe.....	114,538	130,920	122,802	1,218,492
Other.....	91,147	102,744	90,813	969,656
Total	¥1,025,409	¥1,047,731	¥1,058,257	\$10,908,610

(2) Property, plant and equipment

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Property, plant and equipment				
Japan.....	¥252,894	¥247,440	¥260,693	\$2,690,365
U.S.	284,774	261,857	276,339	3,029,516
Other.....	111,981	89,260	83,301	1,191,297
Total	¥649,650	¥598,558	¥620,334	\$6,911,179

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

Note: Loss on impairment of fixed assets for the fiscal year ended March 31, 2013 is not presented as the amount is immaterial.

4. Amortization of goodwill and unamortized balance

Millions of yen								
2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥—	¥ 815	¥—	¥—	¥ 6	¥ 0	¥ 822
Unamortized balance	¥—	¥—	¥9,363	¥—	¥—	¥—	¥—	¥9,363

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	¥—	¥ 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								
2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	\$—	\$—	\$ 8,673	\$—	\$—	\$72	\$ 1	\$ 8,746
Unamortized balance	\$—	\$—	\$99,608	\$—	\$—	\$—	\$—	\$99,608

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties during the fiscal year ended March 31, 2013 are as follows:

Type	Name	Percentage of voting rights	Relationship	Transaction	Millions of yen			Thousands of U.S. dollars
					Transaction amount (Thousands of shares)	Account	Balance	Transaction amount (Thousands of shares)
Director	Shunzo Mori	Direct Ownership 0.01%	Representative Director, President	Exercise of stock options (Note)	¥360 (75)	—	—	\$3,832 (75)
Director	Fumio Akiya	Direct Ownership 0.00%	Representative Director, Executive Vice President	Exercise of stock options (Note)	¥48 (10)	—	—	\$511 (10)
Director	Yasuhiko Saitoh	Direct Ownership 0.00%	Representative Director, Executive Vice President	Exercise of stock options (Note)	¥36 (7.7)	—	—	\$393 (7.7)
Director	Kiichi Habata	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥72 (15)	—	—	\$766 (15)
Director	Masahiko Todoroki	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥38 (8)	—	—	\$408 (8)
Director	Toshiyuki Kasahara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥28 (6)	—	—	\$306 (6)
Director	Hidenori Onezawa	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥14 (3)	—	—	\$153 (3)
Director	Ken Nakamura	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥28 (6)	—	—	\$306 (6)
Director	Yukihiko Matsui	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥24 (5)	—	—	\$255 (5)

Note: Share subscription rights granted based on resolution by the board of directors meeting held on July 22, 2009 was exercised.

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.

27. CHANGES IN THE METHOD OF PRESENTATION

Consolidated Statements of Changes in Net Assets

The item "Changes in scope of consolidation" for the previous fiscal years ended March 31, 2012 and 2011 is renamed as "Changes in scope of consolidation and equity method" effective from the fiscal year ended March 31, 2013.

28. STANDARDS ISSUED BUT NOT YET EFFECTIVE

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

- (1) Treatment in the balance sheet – Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (2) Treatment in the statement of income and the statement of comprehensive income – Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

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, 2013

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 28
Shin-Etsu Handotai Taiwan Co., Ltd. ⁽¹⁾	70.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28
Shin-Etsu Astech Co., Ltd.	99.6	March 31
Kashima Vinyl Chloride Monomer Co., Ltd.	70.6	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.	100.0	March 31
Shin-Etsu Magnetics Philippines., Inc. ⁽¹⁾	100.0	December 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 28
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 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

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 28
Skyward Information System Co., Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	77.5	March 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
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 28
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⁾	92.0	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
Kashima Chlorine & Alkali Co., Ltd.	79.0	March 31
19 other consolidated subsidiaries		

(1) Overseas subsidiary

(2) S.E.H. Malaysia Sdn. Bhd. issues non-voting shares

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, 2013, 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 its consolidated subsidiaries as at March 31, 2013, 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.



June 27, 2013
Tokyo, Japan

Investor Information As of March 31, 2013

Shin-Etsu Chemical Co., Ltd.

Head Office: 6-1, Ohtemachi 2-chome,
Chiyoda-ku, Tokyo 100-0004, Japan

Date of Establishment:

September 16, 1926

Capital:

¥119,419 million

Number of Employees:

17,712 (including 87 consolidated subsidiaries)

Number of Shares Authorized:

1,720,000,000

Number of Shares Issued:

432,106,693

Number of Stockholders:

58,910

Fiscal Year-End:

March 31

Stockholders' Meeting:

June

Stock Listings:

Tokyo, Osaka, Nagoya (Ticker Code: 4063)

Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

Auditor:

Ernst & Young ShinNihon

Please visit our website:

<http://www.shinetsu.co.jp>
(English, Japanese and Chinese)



Major Stockholders:

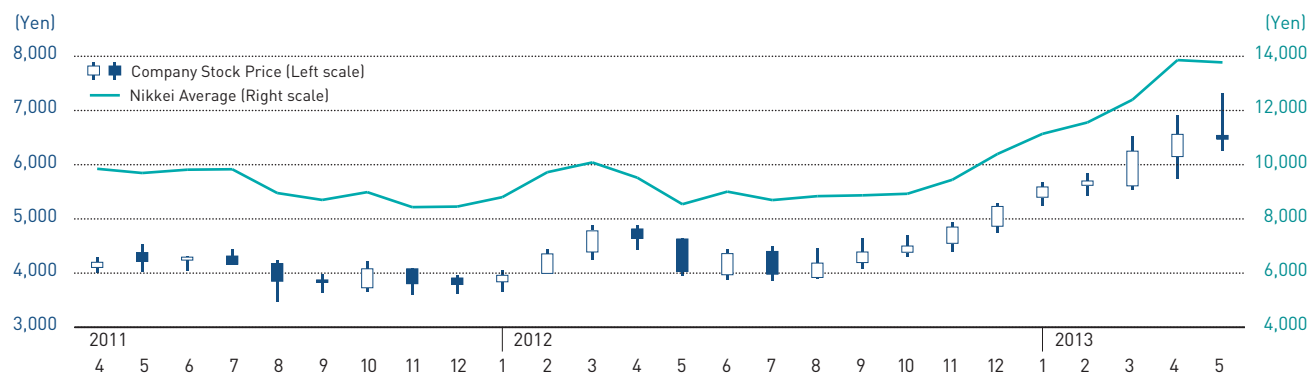
Name	Number of Shares (Thousands)	Percentage of Total Equity (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	37,667	8.9
Japan Trustee Services Bank, Ltd. (Trust Account)	29,538	7.0
Nippon Life Insurance Company	24,370	5.7
The Hachijuni Bank, Ltd.	11,790	2.8
Japan Trustee Services Bank, Ltd. (Trust Account 4)	11,330	2.7
Meiji Yasuda Life Insurance Company	10,687	2.5
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	8,975	2.1
STATE STREET BANK AND TRUST COMPANY 505225	6,773	1.6
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	5,889	1.4
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	5,474	1.3

Note: Shin-Etsu holds 7,190,226 shares of treasury stock, but is excluded from the above list of major stockholders. Stockholding percentages are calculated excluding treasury stock.

Information:

Public Relations Department
Phone: +81-3-3246-5091
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Common Stock Price



Trading Volume

