

Shin-Etsu Chemical Co., Ltd.

Annual Report 2021

Financial Section

Ten-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the fiscal years ended March 31, 2012 through 2021

Millions of yen

	2012	2013	2014	2015
For the year:				
Net sales	¥1,047,731	¥1,025,409	¥1,165,819	¥1,255,543
Cost of sales	798,592	769,427	873,879	940,399
Selling, general and administrative expenses	99,505	98,938	118,130	129,814
Operating income	149,632	157,043	173,809	185,329
Ordinary income	165,237	170,207	180,605	198,025
Net income attributable to owners of parent	100,643	105,714	113,617	128,606
Capital expenditures	87,165	86,841	83,155	109,903
R&D costs	35,725	37,671	43,546	47,165
Depreciation and amortization	82,868	80,961	91,445	96,918
At year-end:				
Total assets	¥1,809,841	¥1,920,903	¥2,198,912	¥2,452,306
Working capital (Current assets - Current liabilities)	694,803	832,878	981,667	1,100,999
Common stock	119,419	119,419	119,419	119,419
Net assets	1,494,573	1,623,176	1,822,135	2,012,711
Interest-bearing debt	15,732	13,929	15,638	14,328
Per share (Yen and U.S. dollars):				
Net income per share—basic	¥237.03	¥248.94	¥267.20	¥302.05
Net income per share—fully diluted (Note 2)	—	248.92	267.07	301.98
Cash dividends	100.00	100.00	100.00	100.00
Payout ratio (%)	42.2	40.2	37.4	33.1
Net assets	3,422.93	3,709.19	4,165.28	4,602.80
General:				
Operating income to net sales ratio (%)	14.3	15.3	14.9	14.8
Net income attributable to owners of parent to net sales ratio (%)	9.6	10.3	9.7	10.2
ROE (%)	7.0	7.0	6.8	6.9
ROA (%)	9.2	9.1	8.8	8.5
Equity ratio (%)	80.3	82.0	80.6	79.9
Number of employees	16,167	17,712	17,892	18,276
Number of shares issued (Thousands)	432,106	432,106	432,106	432,106

Notes: 1. The U.S. dollar amounts represent conversion of yen, for convenience only, at the rate of ¥111 = US\$1, the approximate rate of exchange on March 31, 2021.

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. "Partial Amendments to 'Accounting Standard for Tax-Effect Accounting'", etc. (ASBJ Statement No. 28, February 16, 2018) were applied from the beginning of the fiscal year ended March 31, 2019. Accordingly, the main management indicators, etc., for the previous fiscal year are those after retroactive application of said Accounting Standard, etc.

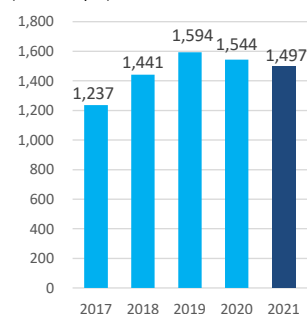
Millions of yen						Thousands of U.S. dollars (Note 3)
2016	2017	2018	2019	2020	2021	2021
¥1,279,807	¥1,237,405	¥1,441,432	¥1,594,036	¥1,543,525	¥1,496,906	\$13,485,643
930,019	868,404	963,008	1,039,979	987,782	953,203	8,587,418
141,262	130,383	141,601	150,352	149,702	151,489	1,364,771
208,525	238,617	336,822	403,705	406,041	392,213	3,533,452
220,005	242,133	340,308	415,311	418,242	405,101	3,649,558
148,840	175,912	266,235	309,125	314,027	293,732	2,646,241
134,753	145,647	176,283	240,618	265,018	228,801	2,061,277
53,165	49,020	51,768	56,436	48,536	51,264	461,842
100,466	93,087	112,016	137,570	131,172	143,807	1,295,559
¥2,510,085	¥2,655,636	¥2,903,137	¥3,038,717	¥3,230,485	¥3,380,615	\$30,455,996
1,170,679	1,232,607	1,324,495	1,358,614	1,446,724	1,551,662	13,978,941
119,419	119,419	119,419	119,419	119,419	119,419	1,075,853
2,080,465	2,190,082	2,413,025	2,532,556	2,723,141	2,886,625	26,005,633
13,470	14,642	15,814	14,920	30,383	34,456	310,419
¥349.46	¥412.86	¥624.28	¥725.99	¥755.17	¥706.76	\$6.367
349.42	412.83	624.10	725.92	755.01	706.26	6.363
110.00	120.00	140.00	200.00	220.00	250.00	2.252
31.5	29.1	22.4	27.5	29.1	35.4	35.4
4,761.48	5,002.16	5,511.98	5,915.47	6,377.93	6,769.72	60.988
16.3	19.3	23.4	25.3	26.3	26.2	26.2
11.6	14.2	18.5	19.4	20.3	19.6	19.6
7.5	8.5	11.9	12.8	12.3	10.7	10.7
8.9	9.4	12.2	14.0	13.3	12.3	12.3
80.8	80.3	81.0	81.1	82.1	83.2	83.2
18,407	19,206	20,155	21,735	22,783	24,069	24,069
432,106	432,106	432,106	427,606	416,662	416,662	416,662

Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

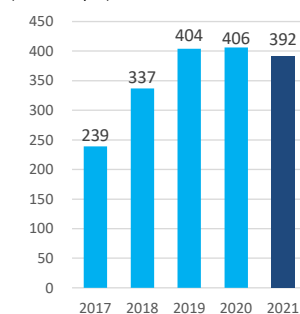
Net Sales

(Billions of yen)



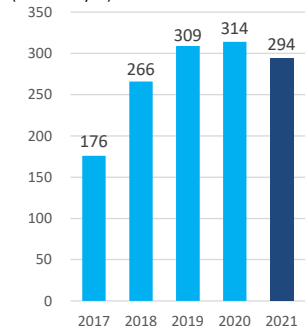
Operating Income

(Billions of yen)



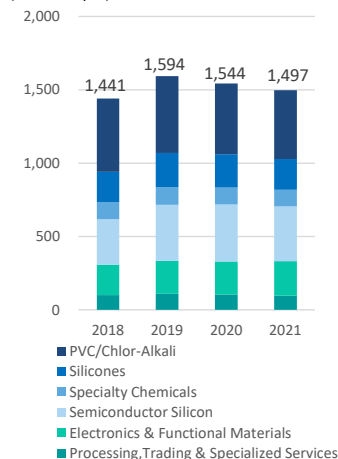
Net Income Attributable to Owners of Parent

(Billions of yen)



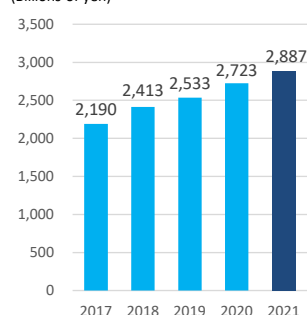
Net Sales by Business Segment

(Billions of yen)



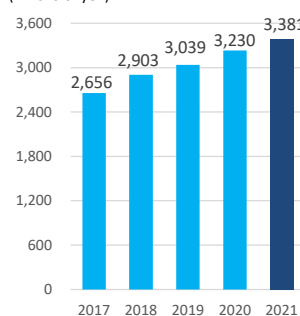
Total Net Assets

(Billions of yen)



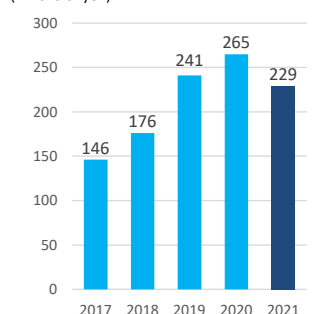
Total Assets

(Billions of yen)



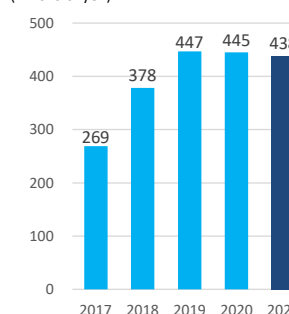
Capital Expenditures

(Billions of yen)



Net Cash Flow*

(Billions of yen)



* Net cash flow =
Net income attributable to owners of parent + Depreciation and amortization

Overview of the Shin-Etsu Group

The Shin-Etsu Group (the "Group") comprises Shin-Etsu Chemical Co., Ltd. (the "Company"), 131 subsidiaries and 13 affiliates (as of March 31, 2021) engaged in the manufacture and sales of PVC and caustic soda as the core of the PVC/Chlor-Alkali Business, the manufacture and sales of silicones as the core of the Silicones Business, the manufacture and sales of cellulose derivatives and silicon metals as the core of the Specialty Chemicals Business, the manufacture and sales of semiconductor silicon as the core of the Semiconductor Silicon Business, the manufacture and sales of rare earth magnets, synthetic quartz products, photoresists and photomask blanks as the core of the Electronics & Functional Materials Business and the Processing, Trading & Specialized Services Business, which conducts Shin-Etsu Polymer Group business and engages in construction, repairs and the provision of a variety of other services. The Group conducts business activities including manufacturing and sales through mutual cooperation among all Group companies.

Consolidated Operating Performance

Following a decline caused by global restrictions placed on economic activities during the quarter spanning from April through June 2020, demand occurring during FY2021 (from April 1, 2020 to March 31, 2021) began to show signs of recovery, although to different extents depending on region and industry. Later, in the quarter spanning from October through December 2020, demand and market conditions bounced back in major areas of business. Since the end of 2020, demand and market conditions have generally continued to improve. In March 2021, the US government passed a \$1.9 trillion (about ¥200 trillion) economic stimulus bill, and the US Federal Reserve Board confirmed that it would continue to ease monetary policy in support of full employment. Meanwhile, the Chinese government updated its five-year plan, implementing flexible measures targeting economic growth. The Shin-Etsu Group consistently prioritized the health and safety of its employees while focusing on fulfilling business requirements including the maintenance of high rates of operation, the preservation of stable supply and the protection of account receivables. At the same time, we maintained communication with our customers, promoted the development of products they find valuable and stably supplied products of unwavering quality. In addition, we carried out investment projects according to plan.

As a result, net sales in FY2021 decreased 3.0% (¥46,619 million) compared to the previous fiscal year, amounting to ¥1,496,906 million. Operating income amounted to ¥392,213 million, down 3.4% (¥13,828 million) compared to the previous fiscal year, and ordinary income was ¥405,101 million, down 3.1% (¥13,141 million). Net income attributable to owners of parent came to ¥293,732 million, down 6.5% (¥20,295 million) year on year.

Business Segment Overview

PVC/Chlor-Alkali Business

Mainly comprising the manufacture and sales of PVC and caustic soda

With regard to the PVC/Chlor-Alkali business, full-scale operations were maintained at Shintech Inc. in the U.S. and shipments of PVC and caustic soda remained high. In April and May, the Company was affected by a decline in market conditions caused by restrictions placed on economic activity. Afterward, however, the Company raised prices following a tightening of the balance between global supply and demand. Bases in both Europe and Japan strove to maintain sales volumes and benefitted from improved market conditions.

Consequently, segment sales fell 3.0% (¥14,559 million) compared to the previous fiscal year, amounting to ¥469,763 million. Segment operating income was ¥97,051 million, up 5.3% (¥4,864 million) year on year.

Silicones Business

Mainly comprising the manufacture and sales of silicones

With regard to the silicones business, performance was affected by declining general-purpose product prices and slow demand for silicones used in cosmetics and automotive applications. Customer demand began to recover from the beginning of autumn 2020.

As a result, segment sales came to ¥208,324 million, down 8.2% (¥18,548 million) compared to the previous fiscal year. Segment operating income was ¥45,112 million, down 26.6% (¥16,378 million) year on year.

Specialty Chemicals Business

Mainly comprising the manufacture and sales of cellulose derivatives and silicon metals

With regard to the cellulose derivatives business, sales of pharmaceutical products remained firm, but sales of products for building and construction applications were weak. Shipments of synthetic pheromone products and POVAL products were low.

Segment sales consequently dropped to ¥112,632 million, down 1.9% (¥2,164 million) compared to the previous fiscal year. Segment operating income was ¥21,826 million, down 21.3% (¥5,891 million) year on year.

Semiconductor Silicon Business

Mainly comprising the manufacture and sales of semiconductor silicon

With regard to the semiconductor silicon business, demand grew as economic activity resumed.

Segment sales fell to ¥374,097 million, down 3.5% (¥13,534 million) compared to the previous fiscal year. Despite this decline, segment operating income rose to ¥144,100 million, up 0.6% (¥802 million) year on year due to the growth in demand.

Electronics & Functional Materials Business

Mainly comprising the manufacture and sales of rare earth magnets and synthetic quartz products

With regard to the rare earth magnets business, overseas plant operations incurred temporary impact from restrictions placed on economic activities during the first quarter. However, during the second half, sales of materials used in automotive applications showed strong recovery, and performance from materials used in hard disk drives was also favorable. Results in the photoresist products business continued to be robust, particularly in the cases of ArF and EUV photoresists. Performance in the photomask blanks business was bolstered by strong sales of photomask blanks with both advanced and general-purpose applications. Meanwhile, the optical fiber preform business continued to face harsh conditions due to impact from the deteriorating market. At the same time, the photomask substrates business for large panel applications incurred impact from slowing demand.

Consequently, segment sales increased to ¥234,883 million, up 4.3% (¥9,772 million) compared to the previous fiscal year. Segment operating income amounted to ¥70,298 million, up 2.6% (¥1,758 million) year on year.

Processing, Trading & Specialized Services Business

Mainly comprising the Shin-Etsu Polymer Group business and the provision of various services including construction and repairs

Shipments of Shin-Etsu Polymer Co., Ltd.'s semiconductor wafer-related containers were strong, but performance in automotive input devices was affected by deteriorating conditions in the automobile market.

As a result, segment sales declined to ¥97,204 million, down 7.2% (¥7,587 million) compared to the previous fiscal year. Segment operating income amounted to ¥14,359 million, down 3.1% (¥465 million) year on year.

Analysis of Financial Position

At the end of FY2021, total assets increased by ¥150,130 million compared with the end of the previous fiscal year, to ¥3,380,615 million. This increase was primarily due to growth in cash and time deposits, securities and property, plant and equipment. Meanwhile, total liabilities decreased by ¥13,353 million from the end of the previous fiscal year to ¥493,990 million.

As of March 31, 2021, total net assets amounted to ¥2,886,625 million, rising year on year as ¥293,732 million in net income attributable to owners of parent offset impact from ¥91,420 million in cash dividends. As a result, the equity ratio came to 83.2%, up 1.1 percentage points from its previous level of 82.1%, and net assets per share increased by ¥391.79 compared with the previous fiscal year, to ¥6,769.72.

Return on invested capital (ROIC) was 17.2%, down 2.2 percentage points from its previous level of 19.4%, and return on equity (ROE) was 10.7%, down 1.6 percentage points from its level of 12.3% at the end of the previous fiscal year. The full-year dividend per share was increased by ¥30 compared to the previous fiscal year, to ¥250 per share.

Cash Flows

The balance of cash and cash equivalents at the end of FY2021 increased by 7.6% (¥56,471 million) compared with the end of the previous fiscal year to ¥801,596 million.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥401,176 million, a decrease of ¥11,208 million from the previous fiscal year. Income before income taxes and non-controlling interests provided ¥402,145 million, and depreciation and amortization provided ¥143,807 million, while payments of income taxes used ¥101,402 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥250,719 million (down ¥143,828 million from the previous fiscal year). Net cash used decreased primarily due to ¥82,354 million in proceeds from redemption of securities and mainly comprised ¥236,195 million in purchases of property, plant and equipment, ¥87,500 million in purchase of securities and a net increase of ¥12,334 in time deposits.

Cash Flows from Financing Activities

Net cash used for financing activities decreased by ¥2,932 million from the previous fiscal year to ¥91,123 million. This total primarily consisted of ¥91,420 million in cash dividends paid and ¥10,657 million in purchases of treasury stock.

As of March 31, 2021, cash, deposits and available-for-sale securities (current assets) including negotiable deposits totaled ¥1,152,922 million (including instruments with periods longer than three months), ensuring sufficient liquidity. In addition, the Company maintains stable cash flows through its operating activities. As a result, our own funds will satisfy working capital and capital expenditure requirements for the foreseeable future.

The Shin-Etsu Group (the Company and its consolidated subsidiaries) anticipates capital expenditures of ¥220.0 billion during the fiscal year ending March 31, 2022, down approximately 4% from the previous fiscal year. We expect to fund this amount internally.

Capital Expenditures

During the year under review, the Group's capital expenditures totaled ¥228,801 million, across the PVC/Chlor-Alkali; Silicones; Specialty Chemicals; Semiconductor Silicon; Electronics and Functional Materials; and Processing, Trading and Specialized Services businesses.

Capital expenditures in the PVC/Chlor-Alkali Business came to ¥96,162 million. The key expenditure was a new integrated PVC production facility (under construction) at Shintech Inc.

In the Silicones Business, capital expenditures amounted to ¥26,276 million. Major expenditures went toward the enhancement and streamlining of silicone product manufacturing facilities (construction underway).

In the Specialty Chemicals Business, capital expenditures came to ¥14,791 million.

Capital expenditures in the Semiconductor Silicon Business totaled ¥41,697 million. Principal capital expenditures went toward responding to increasingly high semiconductor silicon wafer quality requirements and reinforcing facilities at Shin-Etsu Handotai Co., Ltd.

In the Electronics and Functional Materials Business, capital expenditures totaled ¥47,370 million. Key capital expenditures included the enhancement of photoresist manufacturing equipment at both the Company and Shin-Etsu Electronics Materials Taiwan Co., Ltd. (construction underway) and photomask blank manufacturing equipment at the Company.

Capital expenditures in the Process, Trading and Specialized Services Business amounted to ¥4,082 million.

The Company primarily met these capital expenditure requirements through the use of internal funds.

Basic Policy Concerning Profit-sharing

From a long-term perspective, we are focusing on expanding profitability and maintaining a solid financial base, and our basic policy is to return the fruits of such management efforts to our shareholders in a proper, consistent manner. We strive to increase our corporate value by allocating internal reserves for capital investments, R&D investments and M&A deals while also actively using them to enhance our competitiveness, facilitate future business development and promote further growth. As we face the ongoing global COVID-19 crisis, we will maintain our financial base, which will support our efforts to confront the drastic economic fluctuations that may occur. Based on this policy, we emphasize shareholder return as part of our capital policy and strive to provide, considering various circumstances, stable dividends at a dividend payout ratio of around 35% in the medium to long term.

In accordance with the above, we have decided upon a year-end dividend of ¥140 per share for FY2021, ¥30 per share higher than the corresponding interim dividend of ¥110 per share. This decision brings the annual dividend for FY2021 to ¥250 per share, up ¥30 per share from the annual dividend of ¥220 per share issued for the previous fiscal year.

Outlook for Fiscal 2022 (Ending March 31, 2022)

Following a decline caused by global restrictions placed on economic activities during the quarter spanning from April through June 2020, demand occurring during FY2021 has recovered in the Company's areas of business despite some differences of extent depending on region and industry. Additionally, economic measures that major countries have either launched or plan to launch are expected to have positive impact on the global economy. On the other hand, these factors also accompanied signs an upward swing in inflation and disruption in supply chains. Despite progress in terms of COVID-19 vaccinations, the pandemic has resurged, rendering future prospects unpredictable. In addition to localized geopolitical risks, we must monitor increasingly clear confrontation between the U.S. and China. Large fluctuations in the global climate are also a cause for concern. We will conduct business and strive to improve our profitability while maintaining our resilience in the face of these developments.

Based on the above factors, we have temporarily decided to not to announce forecasts concerning business performance in FY2022 due to the current prohibitive difficulty of making reasonable projections. We will promptly disclose our FY2022 forecast once reasonable projections become possible.

Business Risks

Described below are risks that management has identified as significant. These risks are associated with Shin-Etsu Chemical's financial or operational performance or its cash flow. They have been disclosed in the Company's Annual Securities Report under the section on business and accounting conditions.

The Shin-Etsu Group (the Company, its consolidated subsidiaries and its equity-method affiliates) strives to mitigate these risks through prevention, diversification and hedging. However, these risks may significantly impact the Group's performance in the case of unexpected circumstances. The items below have been included based on judgments made by the Group at the end of FY2021 (March 31, 2021) and do not encompass all risks related to the Group.

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 74% of the consolidated net sales of the Group in fiscal 2021, 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, we are unable to completely hedge against all these risks, so the potential impact is similar.

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, or if supply chains are interrupted, 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, if trade policies in supplying countries are changed 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 Group 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. Similarly, in products for industries other than those mentioned above, the Group could be affected by the emergence of highly competitive alternative products.

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 by bolstering efficiency. However, if regulations concerning the environment become stricter than presently anticipated, become technologically difficult to respond to 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.

9) Impact of COVID-19

To minimize the impact of COVID-19, we have enacted thorough health and safety measures at the Group's business locations. Nevertheless, the spread of the virus could prompt measures that would curtail economic activity in affected countries, resulting in a substantial downturn in demand for the Company's products and damaging the Company's business locations and supply chain. Such circumstances could have a significant effect on the Group's business operations.

Consolidated Balance Sheet

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
ASSETS			
Current Assets:			
Cash and time deposits (Note 21)	¥836,448	¥866,882	\$7,809,753
Notes and accounts receivable-trade	325,489	343,896	3,098,170
Securities (Notes 5 and 21)	251,377	286,039	2,576,936
Merchandise and finished goods	173,358	157,401	1,418,031
Work in process	16,828	13,102	118,038
Raw materials and supplies	175,479	194,528	1,752,508
Other	52,723	59,085	532,304
Less: Allowance for doubtful accounts (Note 2 (5))	(7,186)	(6,028)	(54,308)
Total current assets	1,824,519	1,914,909	17,251,434
Fixed Assets:			
Property, Plant and Equipment (Notes 2 (8) and 8):			
Buildings and structures, net	202,848	206,246	1,858,075
Machinery and equipment, net	440,595	559,992	5,044,973
Land	92,577	90,159	812,246
Construction in progress	367,309	290,901	2,620,730
Other, net	16,584	17,850	160,812
Total property, plant and equipment	1,119,915	1,165,149	10,496,838
Intangible Assets	10,099	8,922	80,381
Investments and Other Assets:			
Investments in securities (Notes 5 and 7)	126,060	150,573	1,356,513
Net defined benefit asset (Note 10)	3,788	3,782	34,074
Deferred tax assets (Note 19)	63,735	58,703	528,862
Other (Note 7)	84,657	80,756	727,535
Less: Allowance for doubtful accounts (Note 2 (5))	(2,291)	(2,180)	(19,644)
Total investments and other assets	275,950	291,635	2,627,342
Total fixed assets	1,405,965	1,465,706	13,204,562
Total Assets	¥3,230,485	¥3,380,615	\$30,455,996

The accompanying notes are an integral part of the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
LIABILITIES			
Current Liabilities:			
Notes and accounts payable-trade	¥136,442	¥125,410	\$1,129,821
Short-term borrowings (Note 9)	8,295	11,768	106,023
Accounts payable-other	75,094	63,595	572,936
Accrued expenses	73,292	69,226	623,663
Accrued income taxes	44,377	48,049	432,876
Accrued bonuses for employees	3,661	3,663	33,002
Accrued bonuses for directors	728	707	6,369
Other	35,901	40,825	367,800
Total current liabilities	377,794	363,246	3,272,492
Long-Term Liabilities:			
Long-term debt (Note 9)	15,124	15,986	144,025
Deferred tax liabilities (Note 19)	59,378	55,289	498,101
Net defined benefit liability (Note 10)	36,243	41,456	373,480
Other	18,803	18,011	162,263
Total long-term liabilities	129,549	130,743	1,177,870
Total Liabilities	507,343	493,990	4,450,363
Commitment and Contingent Liabilities (Note 11)			
NET ASSETS			
Stockholders' Equity:			
Common stock:	119,419	119,419	1,075,853
Authorized: 1,720,000,000 shares			
Issued: 416,662,793 shares and 416,662,793 shares as of March 31, 2020 and 2021, respectively			
Additional paid-in capital	128,323	128,954	1,161,752
Retained earnings (Note 12)	2,413,769	2,616,081	23,568,297
Less: Treasury stock, at cost	(7,123)	(12,612)	(113,629)
805,396 shares and 1,115,572 shares as of March 31, 2020 and 2021, respectively			
Total stockholders' equity	2,654,388	2,851,842	25,692,273
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities (Note 2 (7))	10,296	25,027	225,468
Deferred gains (losses) on hedges	(2,799)	(2,703)	(24,356)
Foreign currency translation adjustments	(8,187)	(58,618)	(528,098)
Remeasurements of defined benefit plans	(1,387)	(2,409)	(21,705)
Total accumulated other comprehensive income	(2,078)	(38,704)	(348,691)
Share Subscription Rights	1,904	2,014	18,147
Non-controlling Interests in Consolidated Subsidiaries	68,927	71,473	643,903
Total net assets	2,723,141	2,886,625	26,005,633
Total Liabilities and Net Assets	¥3,230,485	¥3,380,615	\$30,455,996

Consolidated Statement of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the fiscal years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Net Sales (Note 22)	¥1,543,525	¥1,496,906	\$13,485,643
Cost of Sales (Notes 10 and 16)	987,782	953,203	8,587,418
Gross profit	555,743	543,702	4,898,224
Selling, General and Administrative Expenses (Notes 10, 15 and 16)	149,702	151,489	1,364,771
Operating income (Note 22)	406,041	392,213	3,533,452
Other Income (Expenses):			
Interest income	10,777	5,016	45,195
Dividend income	7,388	7,417	66,828
Equity in earnings (losses) of affiliates	4,327	5,364	48,325
Interest expenses	(749)	(728)	(6,565)
Loss on disposal of property, plant and equipment	(1,202)	(1,954)	(17,607)
Other, net	(8,340)	(2,227)	(20,070)
Ordinary income	418,242	405,101	3,649,558
Extraordinary income:			
Gain on sales of investment securities	7,774	-	-
Extraordinary loss:			
Loss on disaster (Note 17)	-	2,955	26,627
Income before income taxes and non-controlling interests	426,017	402,145	3,622,931
Income Taxes (Note 19):			
Current	108,290	105,356	949,155
Deferred	(564)	(2,387)	(21,513)
Total Income Taxes	107,726	102,968	927,641
Net Income	318,290	299,177	2,695,290
Net Income Attributable to Non-Controlling Interests	(4,263)	(5,444)	(49,048)
Net Income Attributable to Owners of Parent	¥314,027	¥293,732	\$2,646,241
			U.S. dollars (Note 3)
Earnings per Share (Note 2 (14)):			
Net income attributable to owners of parent—basic	¥755.17	¥706.76	\$6.367
Net income attributable to owners of parent—fully diluted	755.01	706.26	\$6.363
Cash dividends	220.00	250.00	\$2.252
Weighted-Average Number of Shares Outstanding (Thousands)	415,838	415,602	415,602

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Net Income	¥318,290	¥299,177	\$2,695,290
Other Comprehensive Income (Note 20):			
Unrealized gains (losses) on available-for-sale securities	(12,732)	14,787	133,222
Deferred gains (losses) on hedges	(2,530)	93	842
Foreign currency translation adjustments	(13,642)	(50,887)	(458,445)
Remeasurements of defined benefit plans	(2,371)	(1,010)	(9,106)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(125)	70	637
Total other comprehensive income (loss)	(31,401)	(36,946)	(332,850)
Comprehensive Income	¥286,889	¥262,230	\$2,362,439
(Breakdown)			
Comprehensive income attributable to owners of parent	¥283,128	¥257,106	\$2,316,279
Comprehensive income attributable to non-controlling interests	3,760	5,123	46,160

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Net Assets

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

	Thousands	Millions of yen				
	Number of shares of common stock	Stockholders' Equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2019	427,606	¥119,419	¥128,299	¥2,283,760	¥(94,702)	¥2,436,777
Cash dividends (Note 12)				(87,410)		(87,410)
Net income attributable to owners of parent				314,027		314,027
Purchase of treasury stock					(10,566)	(10,566)
Disposal of treasury stock			145		1,391	1,537
Retirement of treasury stock	(10,943)		(96,753)		96,753	
Transfer to additional paid-in capital from retained earnings			96,608	(96,608)		
Others			23			23
Net changes of items other than stockholders' equity						
Balance at March 31, 2020	416,662	¥119,419	¥128,323	¥2,413,769	¥(7,123)	¥2,654,388

	Millions of yen								
	Accumulated Other Comprehensive Income					Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans					
Balance at April 1, 2019	¥22,955	¥(266)	¥5,143	¥987	¥28,820	¥1,143	¥65,814	¥2,532,556	
Cash dividends (Note 12)								(87,410)	
Net income attributable to owners of parent								314,027	
Purchase of treasury stock								(10,566)	
Disposal of treasury stock								1,537	
Retirement of treasury stock									
Transfer to additional paid-in capital from retained earnings									
Others								23	
Net changes of items other than stockholders' equity	(12,659)	(2,533)	(13,331)	(2,375)	(30,899)	760	3,112	(27,026)	
Balance at March 31, 2020	¥10,296	¥(2,799)	¥(8,187)	¥(1,387)	¥(2,078)	¥1,904	¥68,927	¥2,723,141	

	Thousands	Millions of yen				Total
	Number of shares of common stock	Stockholders' Equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
Balance at April 1, 2020	416,662	¥119,419	¥128,323	¥2,413,769	¥(7,123)	¥2,654,388
Cash dividends (Note 12)				(91,420)		(91,420)
Net income attributable to owners of parent				293,732		293,732
Purchase of treasury stock					(10,657)	(10,657)
Disposal of treasury stock			627		5,167	5,795
Others			3			3
Net changes of items other than stockholders' equity						
Balance at March 31, 2021	416,662	¥119,419	¥128,954	¥2,616,081	¥(12,612)	¥2,851,842

	Millions of yen							Total net assets
	Accumulated Other Comprehensive Income					Share subscription rights	Non-controlling interests in consolidated subsidiaries	
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at April 1, 2020	¥10,296	¥(2,799)	¥(8,187)	¥(1,387)	¥(2,078)	¥1,904	¥68,927	¥2,723,141
Cash dividends (Note 12)								(91,420)
Net income attributable to owners of parent								293,732
Purchase of treasury stock								(10,657)
Disposal of treasury stock								5,795
Others								3
Net changes of items other than stockholders' equity	14,730	95	(50,430)	(1,021)	(36,625)	110	2,546	(33,969)
Balance at March 31, 2021	¥25,027	¥(2,703)	¥(58,618)	¥(2,409)	¥(38,704)	¥2,014	¥71,473	¥2,886,625

	Thousands	Thousands of U.S. dollars (Note 3)				Total
	Number of shares of common stock	Stockholders' Equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
Balance at April 1, 2020	416,662	\$1,075,853	\$1,156,067	\$21,745,668	\$(64,175)	\$23,913,413
Cash dividends (Note 12)				(823,611)		(823,611)
Net income attributable to owners of parent				2,646,241		2,646,241
Purchase of treasury stock					(96,010)	(96,010)
Disposal of treasury stock			5,655		46,556	52,211
Others			29			29
Net changes of items other than stockholders' equity						
Balance at March 31, 2021	416,662	\$1,075,853	\$1,161,752	\$23,568,297	\$(113,629)	\$25,692,273

	Thousands of U.S. dollars (Note 3)							Total net assets
	Accumulated Other Comprehensive Income					Share subscription rights	Non-controlling interests in consolidated subsidiaries	
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at April 1, 2020	\$92,757	\$(25,220)	\$(73,765)	\$(12,500)	\$(18,729)	\$17,153	\$620,965	\$24,532,803
Cash dividends (Note 12)								(823,611)
Net income attributable to owners of parent								2,646,241
Purchase of treasury stock								(96,010)
Disposal of treasury stock								52,211
Others								29
Net changes of items other than stockholders' equity	132,711	864	(454,332)	(9,205)	(329,962)	994	22,937	(306,030)
Balance at March 31, 2021	\$225,468	\$(24,356)	\$(528,098)	\$(21,705)	\$(348,691)	\$18,147	\$643,903	\$26,005,633

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2021	2021
Cash Flows from Operating Activities:			
Income before income taxes and non-controlling interests	¥426,017	¥402,145	\$3,622,931
Depreciation and amortization	131,172	143,807	1,295,559
Loss on impairment of fixed assets	912	936	8,436
Increase (decrease) in net defined benefit liability	2,723	2,860	25,772
(Gain) loss on sales of investments in securities	(7,774)	(1,687)	(15,205)
(Gain) loss on revaluation of investments in securities	-	520	4,692
Increase (decrease) in allowance for doubtful accounts	(493)	(1,185)	(10,676)
Interest and dividend income	(18,166)	(12,434)	(112,023)
Interest expenses	749	728	6,565
Exchange (gain) loss	3,464	(4,909)	(44,230)
Equity in (earnings) losses of affiliates	(4,327)	(5,364)	(48,325)
(Increase) decrease in notes and accounts receivable	11,215	(22,016)	(198,350)
Loss on disaster	-	2,955	26,627
(Increase) decrease in inventories	(36,910)	(3,898)	(35,124)
(Increase) decrease in long-term advance payment	3,579	4,109	37,023
Increase (decrease) in notes and accounts payable	(3,892)	(9,584)	(86,345)
Other, net	(7,404)	(8,859)	(79,816)
Subtotal	500,865	488,123	4,397,510
Proceeds from interest and dividends	19,852	15,026	135,370
Payments of interest	(508)	(571)	(5,148)
Payments of income taxes	(107,824)	(101,402)	(913,533)
Net cash provided by operating activities	412,384	401,176	3,614,200
Cash Flows from Investing Activities:			
(Increase) decrease in time deposits	(127,525)	(12,334)	(111,118)
Purchases of securities	(117,000)	(87,500)	(788,288)
Proceeds from redemption of securities	115,936	82,354	741,932
Purchases of property, plant and equipment	(268,365)	(236,195)	(2,127,885)
Proceeds from sales of property, plant and equipment	65	3,836	34,561
Purchases of intangible fixed assets	(1,063)	(1,177)	(10,607)
Purchases of investments in securities	(6,520)	(3,616)	(32,585)
Proceeds from sales of investments in securities	12,606	3,471	31,273
Payments of loans	(74)	(70)	(639)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(1,966)	-	-
Proceeds from collection of loans	615	461	4,157
Other, net	(1,256)	51	461
Net cash provided by (used for) investing activities	(394,547)	(250,719)	(2,258,737)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term borrowings	1,265	701	6,317
Proceeds from long-term debt	8,384	4,578	41,250
Repayments of long-term debt	(743)	(796)	(7,172)
Purchases of treasury stock	(10,566)	(10,657)	(96,010)
Proceeds from sales of treasury stock	1,398	5,150	46,396
Cash dividends paid	(87,410)	(91,420)	(823,611)
Cash dividends paid to non-controlling interests	(1,077)	(1,249)	(11,256)
Other, net	(5,306)	2,569	23,151
Net cash used for financing activities	(94,055)	(91,123)	(820,934)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(7,001)	(2,861)	(25,777)
Net Increase (Decrease) in Cash and Cash Equivalents	(83,220)	56,471	508,751
Cash and Cash Equivalents at Beginning of Year	828,345	745,125	6,712,843
Cash and Cash Equivalents at End of Year (Note 21)	¥745,125	¥801,596	\$7,221,594

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2020 and 2021

1. BASIS OF PRESENTING CONSOLIDATED 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 maintain 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 of 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 reclassifications have been made to the consolidated financial statements issued domestically to enable the 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 consolidated financial statements include the accounts of the Company and 97 majority-owned subsidiaries (collectively, the "Companies"), of which the principal firms are listed on page 41 with their respective fiscal year-ends.

The unconsolidated subsidiaries, including Shin-Etsu Magnetics (Thailand) Ltd., whose total assets, net sales, net income and retained earnings in the aggregate are not material to the consolidated financial statements have been excluded from the scope of consolidation.

For consolidation of subsidiaries whose fiscal year-ends are not the same as the Company, necessary adjustments are made for significant intercompany transactions occurring during the periods between the fiscal year-end of respective consolidated subsidiaries and that of the Company.

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

(2) Accounting for investments in unconsolidated subsidiaries and affiliates

The equity method is applied to the investments in 3 major affiliates and investments in the remaining unconsolidated subsidiaries, including Shin-Etsu Magnetics (Thailand) Ltd., and affiliates, including NIPPON PLASTIC INDUSTRY CO., LTD., are stated at cost because they are not material to the consolidated financial statements.

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

Mimasu Semiconductor Industry Co., Ltd.
Shin-Etsu Quartz Products Co., Ltd.
Admatechs Co., Ltd.

(3) Translation of foreign currency transactions

Foreign currency transactions are generally translated into yen at the rates prevailing at the respective transaction dates.

Foreign currency deposits, receivables and payables 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 profit 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 balance sheet accounts of overseas consolidated subsidiaries are translated into yen at current exchange rates prevailing at the end of the fiscal year, except for equity, which is translated at the historical rate. Revenue and expense accounts are translated at the average exchange rates during the year. The resulting translation adjustments are shown as "Foreign currency translation adjustments" in the accompanying balance sheets as of March 31, 2020 and 2021.

(5) Allowance for doubtful accounts

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

(6) Inventories

Inventories are mainly stated at cost determined by the weighted-average method. Balance sheet amounts are written down based on any decline in profitability.

(7) Financial instruments

Securities:

Held-to-maturity debt securities 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 component of accumulated other comprehensive income at net-of-tax amounts. Other securities for which market quotations are unavailable are stated at cost, determined by the moving-average cost method.

Derivatives:

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

The Company and consolidated subsidiaries enter into foreign exchange contracts, currency swaps, interest rate swaps and commodity swap contracts.

Hedge accounting:

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in 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 rate swaps, foreign exchange contracts, currency swaps and commodity swap contracts. The related hedged items are interest rate transactions tied to funding activities, forecasted foreign currency transactions and prices of raw materials.

The Company has a policy to utilize the above hedging instruments in order to hedge the risk of fluctuations in interest rates and foreign currencies. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the underlying hedged items. The Company does not enter into derivative transactions for trading or speculative purposes.

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

(8) Property, plant and equipment

The Company and certain domestic subsidiaries mainly apply the declining-balance method, and overseas subsidiaries mainly apply the straight-line method. It should be noted, however, that the straight-line method is applied for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016 by the Company and certain domestic subsidiaries.

Useful lives mainly are as follows:

Buildings and structures ----- 15 – 47 years

Machinery and vehicles ----- 2 – 20 years

Additional depreciation is recorded based on excess operating hours for machinery and equipment that operate significantly in excess of their normal utilization rates.

(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 recognize the estimated amount of employees' bonuses to be paid in the subsequent period that is attributable to the current fiscal year.

(11) Accrued bonuses for directors

The Company and its consolidated subsidiaries recognize the estimated amount of directors' bonuses to be paid in the subsequent period that is attributable to the current fiscal year.

(12) Accrued retirement benefits

The Company applies the benefit formula basis to measure the pension obligations. The expected retirement benefit attributed to periods of service under the plan's benefit formula is deemed as arising in each period.

Actuarial differences are amortized over a five-year period, which is within the average remaining service period of employees, using the straight-line method from the fiscal year when the difference was generated. Prior service cost is amortized as incurred over a ten-year period, which is within the average remaining service period of employees using the straight-line method from the time when the prior service cost was generated.

(13) Research and development costs

Research and development costs are charged to income as incurred.

(14) Income and dividends per share

Earnings per share is based upon the weighted-average number of shares of common stock outstanding during each fiscal year. Earnings per share adjusted for dilution represents earnings 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 12).

Dividends charged to retained earnings in the accompanying consolidated statements of changes in net assets represent dividends approved and paid during the year.

(16) 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.

3. UNITED STATES DOLLAR AMOUNTS

The accompanying consolidated financial statements are prepared in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥111 to US\$1, the approximate effective rate of exchange on March 31, 2021. 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 ¥111 to US\$1 or at any other rate.

4. FINANCIAL INSTRUMENTS

(1) Overview of financial instruments

Management policy

In principle, fund management is limited to deposits with financial institutions with high credit ratings and risk-free bonds, and financing is obtained 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 related to notes and accounts receivable-trade, each business department not only controls and manages account due dates and balances, but also confirms the credit standing of major customers periodically, making efforts to identify doubtful accounts as early as possible.

Securities and investments in securities are stocks in companies with which the Company has business relationships, held-to-maturity debt securities and also certificates of deposit. Regarding securities and investment securities, the Company regularly determines their fair value and the financial situation of the issuing companies. For stocks, the Company also continually reviews the stock holding status, considering its 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 long-term loans and long-term debts, derivative transactions such as interest rate swap transactions, currency swap transactions and foreign exchange forward contracts are utilized. Also, to hedge price fluctuation risks when procuring raw materials, commodity swap transactions are utilized. All derivative transactions are entered into for the purpose of hedging risks arising 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, 2020 and 2021, the book value, fair value and the difference between the two are as follows:

	Millions of yen		
	2020		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits	¥836,448	¥836,448	¥—
(2) Notes and accounts receivable—trade	325,489	325,489	—
(3) Securities and investments in securities			
i) Held-to-maturity debt securities	20,521	20,535	14
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	27,659	24,930	(2,728)
iii) Available-for-sale securities	295,512	295,512	—
(4) Long-term loans	553	583	30
Total	¥1,506,182	¥1,503,499	¥(2,682)
Liabilities:			
(1) Notes and accounts payable—trade	¥136,442	¥136,442	¥—
(2) Short-term borrowings	8,295	8,295	—
(3) Accounts payable—other	75,094	75,094	—
(4) Accrued expenses	73,292	73,292	—
(5) Accrued income taxes	44,377	44,377	—
(6) Long-term debt	15,124	14,772	(351)
Total	¥352,627	¥352,275	¥(351)
Derivative transactions:			
Hedge accounting not applied	¥(1,407)	¥(1,407)	¥—
Hedge accounting applied	(3,552)	(3,552)	—
Total	¥(4,960)	¥(4,960)	¥—

	Millions of yen			Thousands of U.S. dollars		
	2021	2021	2021	2021	2021	2021
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits	¥866,882	¥866,882	¥—	\$7,809,753	\$7,809,753	\$—
(2) Notes and accounts receivable—trade	343,896	343,896	—	3,098,170	3,098,170	—
(3) Securities and investments in securities						
i) Held-to-maturity debt securities	20,055	20,150	95	180,680	181,536	855
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	28,986	38,460	9,474	261,137	346,490	85,353
iii) Available-for-sale securities	350,082	350,082	—	3,153,895	3,153,895	—
(4) Long-term loans	430	440	9	3,881	3,968	86
Total	¥1,610,334	¥1,619,913	¥9,578	\$14,507,517	\$14,593,814	\$86,296
Liabilities:						
(1) Notes and accounts payable—trade	¥125,410	¥125,410	¥—	\$1,129,821	\$1,129,821	\$—
(2) Short-term borrowings	11,768	11,768	—	106,023	106,023	—
(3) Accounts payable—other	63,595	63,595	—	572,936	572,936	—
(4) Accrued expenses	69,226	69,226	—	623,663	623,663	—
(5) Accrued income taxes	48,049	48,049	—	432,876	432,876	—
(6) Long-term debt	15,986	15,760	(226)	144,025	141,982	(2,042)
Total	¥334,037	¥333,810	¥(226)	\$3,009,345	\$3,007,303	\$(2,042)
Derivative transactions:						
Hedge accounting not applied	¥(6,268)	¥(6,268)	¥—	\$(56,470)	\$(56,470)	\$—
Hedge accounting applied	(3,706)	(3,706)	—	(33,392)	(33,392)	—
Total	¥(9,974)	¥(9,974)	¥—	\$(89,862)	\$(89,862)	\$—

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

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

(3) Securities and investments in securities

These consist mainly of stocks, quoted bonds and negotiable certificates of deposit. The fair value of stocks is based on prices quoted on stock exchanges, while the fair value of bonds is based on either prices quoted on the exchanges or prices provided by counterparty financial institutions. Negotiable certificates of deposit are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as the fair value in the table above.

(4) Long-term loans

The fair value of 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 Company's 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

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

(6) Long-term debt

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

Derivative transactions

Please refer to Note 6.

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

Description	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Non-listed equity securities	¥33,273	¥36,793	\$331,470
Investments in securities, etc.	472	695	6,266
Total	¥33,745	¥37,488	\$337,737

Quoted market prices are not available for these securities. Since it is extremely difficult to estimate their fair value, the fair value is not disclosed.

3. Repayment schedule of time deposits, notes and accounts receivable-trade, securities and investments in securities, and long-term loans.

Description	Millions of yen			
	2020			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥836,392	¥—	¥—	¥—
Notes and accounts receivable-trade	325,489	—	—	—
Securities and investments in securities	251,941	8,079	1,000	—
Long-term loans	—	421	122	9
Total	¥1,413,822	¥8,500	¥1,122	¥9

Description	Millions of yen				Thousands of U.S. dollars			
	2021				2021			
	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	¥866,832	¥—	¥—	¥—	\$7,809,297	\$—	\$—	\$—
Notes and accounts receivable-trade	343,896	—	—	—	3,098,170	—	—	—
Securities and investments in securities	286,039	8,015	1,000	—	2,576,936	72,212	9,009	—
Long-term loans	—	352	69	9	—	3,171	627	82
Total	¥1,496,768	¥8,367	¥1,069	¥9	\$13,484,404	\$75,384	\$9,636	\$82

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

Description	Millions of yen					
	2020					
	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	¥7,489	¥—	¥—	¥—	¥—	¥—
Long-term debt	805	3,354	6,248	3,987	1,495	39
Lease obligations	1,158	1,296	675	552	440	2,841
Total	¥9,453	¥4,650	¥6,923	¥4,539	¥1,935	¥2,881

Description	Millions of yen					
	2021					
	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	¥8,233	¥—	¥—	¥—	¥—	¥—
Long-term debt	3,534	6,748	4,335	4,542	306	53
Lease obligations	1,212	1,234	694	524	440	2,593
Total	¥12,981	¥7,982	¥5,030	¥5,067	¥746	¥2,647

Description	Thousands of U.S. dollars					
	2021					
	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	\$74,177	\$—	\$—	\$—	\$—	\$—
Long-term debt	31,845	60,796	39,062	40,925	2,759	482
Lease obligations	10,925	11,120	6,260	4,727	3,969	23,368
Total	\$116,948	\$71,917	\$45,322	\$45,652	\$6,728	\$23,850

5. SECURITIES

(1) Held-to-maturity debt securities

Description	Millions of yen						Thousands of U.S. dollars		
	2020			2021			2021		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value	¥3,530	¥3,560	¥30	¥3,431	¥3,532	¥100	\$30,914	\$31,820	\$906
Securities with fair value that does not exceed book value	16,991	16,974	(16)	16,624	16,618	(5)	149,766	149,716	(50)
Total	¥20,521	¥20,535	¥14	¥20,055	¥20,150	¥95	\$180,680	\$181,536	\$855

(2) Available-for-sale securities

Description	Millions of yen						Thousands of U.S. dollars		
	2020			2021			2021		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value that exceeds acquisition cost	¥38,540	¥18,506	¥20,033	¥61,343	¥23,646	¥37,697	\$552,643	\$213,027	\$339,616
Securities with book value that does not exceed acquisition cost	256,971	262,046	(5,075)	288,738	290,206	(1,467)	2,601,251	2,614,473	(13,222)
Total	¥295,512	¥280,553	¥14,958	¥350,082	¥313,852	¥36,229	\$3,153,895	\$2,827,500	\$326,394

Note: Non-listed equity securities, with a book value of ¥1,966 million and ¥3,259 million (\$29,360 thousand), and other investment securities with a book value of ¥472 million and ¥695 million (\$6,266 thousand), as of March 31, 2020 and 2021, respectively, whose fair value is extremely difficult to estimate are excluded from the above.

(3) Sold available-for-sale securities

	Millions of yen		
	2020		
	Amount of sale	Gain on sale	Loss on sale
Equity securities	¥12,601	¥7,780	¥6
Total	¥12,601	¥7,780	¥6

Note: For the year ended March 31, 2021, the amount of gain and loss on sale of available-for-sale securities was immaterial.

6. DERIVATIVE TRANSACTIONS

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

Currency related:

As of March 31, 2020

Description	Millions of yen			
	Contract amounts	Contract amounts over one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts				
Sales contracts:				
USD	¥88,531	¥452	¥(1,315)	¥(1,315)
EUR	1,850	—	22	22
Other	2,551	—	(69)	(69)
Purchase contracts:				
USD	1,721	—	(23)	(23)
Other	1,535	—	(20)	(20)
Total	¥96,190	¥452	¥(1,407)	¥(1,407)

As of March 31, 2021

Description	Millions of yen				Thousands of U.S. dollars			
	Contract amounts	Contract amounts over one year	Fair value	Unrealized gain (loss)	Contract amounts	Contract amounts over one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts								
Sales contracts:								
USD	¥127,793	¥1,566	¥(6,110)	¥(6,110)	\$1,151,289	\$14,112	\$(55,054)	\$(55,054)
EUR	3,634	—	(90)	(90)	32,743	—	(811)	(811)
Other	2,366	—	(6)	(6)	21,319	—	(60)	(60)
Purchase contracts:								
USD	2,057	—	(27)	(27)	18,537	—	(245)	(245)
Other	3,800	—	(33)	(33)	34,241	—	(297)	(297)
Total	¥139,652	¥1,566	¥(6,268)	¥(6,268)	\$1,258,131	\$14,112	\$(56,470)	\$(56,470)

Note: The fair value is provided by counterparty financial institutions.

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

1) Currency related:

As of March 31, 2020

Hedge accounting method	Transaction	Hedged items	Millions of yen		
			Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts:				
	Sales contracts				
	USD	Accounts receivable-trade	¥55,665	¥—	¥368
	Purchase contracts				
	EUR	Accounts payable-trade	8,976	4,795	(277)
Total			¥64,641	¥4,795	¥90

As of March 31, 2021

Hedge accounting method	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:							
	Sales contracts	Accounts receivable-trade	¥69,662	¥—	¥(2,833)	\$627,590	\$—	\$(25,525)
	USD							
	Purchase contracts	Accounts payable-trade	4,795	—	415	43,198	—	3,743
Total			¥74,457	¥—	¥(2,417)	\$670,789	\$—	\$(21,782)

Note: The fair value is provided by counterparty financial institutions.

2) Commodity related:

As of March 31, 2020

Hedge accounting method	Transaction	Hedged items	Millions of yen		
			Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Commodity swap contracts	Accounts payable-trade	¥10,753	¥6,875	¥(3,608)
	Commodity option contracts	Accounts payable-trade	373	—	(34)
Total			¥11,126	¥6,875	¥(3,643)

Note: The fair value is provided by counterparty financial institutions.

As of March 31, 2021

Hedge accounting method	Transaction	Hedged items	Millions of yen		
			Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Commodity swap contracts	Accounts payable-trade	¥7,050	¥4,249	¥(1,288)
Total			¥7,050	¥4,249	¥(1,288)

Hedge accounting method	Transaction	Hedged items	Thousands of U.S. dollars		
			Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Commodity swap contracts	Accounts payable-trade	\$63,515	\$38,285	\$(11,609)
Total			\$63,515	\$38,285	\$(11,609)

Note: The fair value is provided by counterparty financial institutions.

7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2020 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Investments in securities (Stocks)	¥58,965	¥62,520	\$563,247
Other (Investments in capital)	3,724	3,751	33,797

8. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2020 and 2021 was ¥2,194,640 million and ¥2,277,104 million (\$20,514,458 thousand), respectively.

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

Short-term borrowings, long-term debt and lease obligations as of March 31, 2020 and 2021 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2020	2021	2021
Short-term borrowings	1.4%	—	¥7,489	¥8,233	\$74,177
Current portion of long-term debt	2.0%	—	805	3,534	31,845
Current portion of lease obligations	2.8%	—	1,158	1,212	10,925
Long-term debt, excluding current portion	1.6%	January 2022- November 2031	15,124	15,986	144,025
Lease obligations, excluding current portion	2.7%	January 2022- December 2040	5,804	5,488	49,445
Total			¥30,383	¥34,456	\$310,419

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2021.

2. In calculating average interest rate, lease obligations for which the balance includes the interest portion are excluded.

3. Repayment schedule subsequent to March 31, 2021 for long-term debt and lease obligations, excluding the current portion, is as follows:

Years ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Long-term debt	Lease obligations	Long-term debt	Lease obligations
2023	¥6,748	¥1,234	\$60,796	\$11,120
2024	4,335	694	39,062	6,260
2025	4,542	524	40,925	4,727
2026	306	440	2,759	3,969

10. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have defined contribution pension plans (DC pension plans) and lump-sum severance payment plans as their defined benefit pension plans. Certain overseas consolidated subsidiaries have defined benefit pension plans as well as defined contribution pension plans. Additionally, the Company has a "Retirement Benefit Trust".

Information on defined benefit pension plans for the fiscal years ended March 31, 2020 and 2021 is as follows:

1. Defined Benefit Pension Plans

(1) Changes in Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Beginning balance of benefit obligations	¥63,138	¥72,693	\$654,896
Service costs	3,875	4,243	38,226
Interest costs	1,260	1,234	11,124
Actuarial differences arising during the year	6,535	7,765	69,961
Retirement benefits paid	(1,399)	(2,248)	(20,256)
Other*	(715)	(2,263)	(20,392)
Ending balance of benefit obligations	¥72,693	¥81,425	\$733,559

*Mainly foreign currency translation adjustments

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Beginning balance of pension assets	¥36,506	¥40,239	\$362,516
Expected return on pension assets	2,049	2,601	23,437
Actuarial differences arising during the year	533	2,585	23,289
Contributions made by the Company and consolidated subsidiaries	735	645	5,810
Retirement benefits paid	(892)	(1,723)	(15,525)
Other*	1,307	(596)	(5,375)
Ending balance of pension assets	¥40,239	¥43,751	\$394,153

*Mainly foreign currency translation adjustments

(3) Reconciliation of Benefit Obligations and Pension Assets with Net Defined Benefit Liability and Asset on the Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded benefit obligations	¥64,174	¥73,050	\$658,108
Pension assets	(40,239)	(43,751)	(394,153)
Net	23,934	29,298	263,954
Unfunded benefit obligations	8,519	8,375	75,451
Net amount of liability and asset on Consolidated Balance Sheets	¥32,454	¥37,674	\$339,405

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net defined benefit liability	¥36,243	¥41,456	\$373,480
Net defined benefit asset	(3,788)	(3,782)	(34,074)
Net amount of liability and asset on Consolidated Balance Sheets	¥32,454	¥37,674	\$339,405

(4) Retirement Benefit Expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service costs	¥3,875	¥4,243	\$38,226
Interest costs	1,260	1,234	11,124
Expected return on pension assets	(2,049)	(2,601)	(23,437)
Amortization of actuarial differences	690	1,407	12,679
Amortization of prior service cost	124	(47)	(429)
Retirement benefit expenses for defined benefit pension plans	¥3,901	¥4,236	\$38,162

(5) Remeasurements of Defined Benefit Plans (Other Comprehensive Income)**Breakdown (before deduction of tax effects)**

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Actuarial differences	¥(5,314)	¥(3,776)	\$(34,019)
Prior service cost	421	40	362
Total	¥(4,893)	¥(3,735)	\$(33,656)

(6) Remeasurements of Defined Benefit Plans (Accumulated Other Comprehensive Income)**Breakdown (before deduction of tax effects)**

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized actuarial differences	¥(3,400)	¥(7,177)	\$(64,658)
Unrecognized prior service cost	311	352	3,171
Total	¥(3,089)	¥(6,825)	\$(61,486)

(7) Pension Assets**Breakdown**

	2020	2021
Bonds	42%	41%
Stocks	26%	26%
Other	32%	33%
Total	100%	100%

(Note) 10% and 12% of total pension assets amount were in a "Retirement Benefit Trust" for lump-sum severance payment plans as of March 31, 2020 and 2021, respectively.

Rate of expected return on pension assets

The expected return on pension assets is determined based on the current and estimated future rates of return on various pension assets.

(8) Basic Assumptions for Calculating Benefit Obligations

	2020	2021
Discount rate	Mainly 0.4%	Mainly 0.4%
Expected rate of return on pension assets	Mainly 2.5%	Mainly 2.5%

2. Defined Contribution Pension Plans

Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
	¥2,276	¥2,578	\$23,225

11. 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, 2020 and 2021 in the aggregate amounts of ¥58 million and ¥16 million (\$144 thousand), respectively.

12. RETAINED EARNINGS

(1) Cash dividends from retained earnings represent dividends with an effective date during the fiscal year. Details of cash dividends paid during the fiscal years ended March 31, 2020 and 2021 are as follows:

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, 2020							
Ordinary general meeting of shareholders held on June 27, 2019	Common stock	March 31, 2019	June 28, 2019	¥41,680		¥100.00	
Board of directors meeting held on October 25, 2019	Common stock	September 30, 2019	November 19, 2019	45,729		110.00	

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, 2021							
Ordinary general meeting of shareholders held on June 26, 2020	Common stock	March 31, 2020	June 29, 2020	¥45,744	¥110.00	\$412,110	\$0.99
Board of directors meeting held on October 27, 2020	Common stock	September 30, 2020	November 19, 2020	45,676	110.00	411,500	0.99

(2) Cash dividends for the fiscal years ended March 31, 2020 and 2021 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		Yen	
					Total amount of dividends		Cash dividends per share	
Fiscal year ended March 31, 2020								
Ordinary general meeting of shareholders held on June 26, 2020	Common stock	Retained earnings	March 31, 2020	June 29, 2020	¥45,744		¥110.00	

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, 2021								
Ordinary general meeting of shareholders held on June 29, 2021	Common stock	Retained earnings	March 31, 2021	June 30, 2021	¥58,176	¥140.00	\$524,113	\$1.26

13. SHARE SUBSCRIPTION RIGHTS

Fiscal year ended March 31, 2020

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, 2020
The Company	Stock options	Common stock	831,000	544,000	167,400	1,207,600	¥1,674
Consolidated subsidiary	—	—	—	—	—	—	229
Total							¥1,904

Fiscal year ended March 31, 2021

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, 2021	Balance at March 31, 2021
The Company	Stock options	Common stock	1,207,600	339,000	500,800	1,045,800	¥1,699	\$15,311
Consolidated subsidiary	—	—	—	—	—	—	314	2,835
Total							¥2,014	\$18,147

14. STOCK OPTIONS

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

The stock option expenses for the fiscal years ended March 31, 2020 and 2021 of ¥844 million and ¥679 million (\$6,120 thousand), 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, 2020 and 2021 were ¥2 million and ¥8 million (\$75 thousand), respectively.

Stock options as of March 31, 2021 were as follows:

	2017	2018	2019
Grantees	18 directors of the Company 90 employees of the Company	18 directors of the Company 94 employees of the Company	17 directors of the Company 100 employees of the Company
Number of stock options granted by category of stock (in shares)	235,000 shares of common stock	497,000 shares of common stock	544,000 shares of common stock
Grant date	September 21, 2017	September 5, 2018	September 30, 2019
Vesting conditions	None	None	None
Exercise period	September 22, 2018 through March 31, 2022	September 6, 2019 through March 31, 2023	October 1, 2020 through March 31, 2024
	2020		
Grantees	16 directors of the Company 105 employees of the Company		
Number of stock options granted by category of stock (in shares)	339,000 shares of common stock		
Grant date	September 2, 2020		
Vesting conditions	None		
Exercise period	September 3, 2021 through March 31, 2025		

Movement in stock options during the fiscal year ended March 31, 2021 was as follows:

	Number of shares				
	2015	2017	2018	2019	2020
Beginning balance (Stock options outstanding)	17,000	173,100	473,500	544,000	—
Granted	—	—	—	—	339,000
Exercised	—	143,100	260,100	78,100	—
Forfeited	17,000	2,500	—	—	—
Ending balance (Stock options outstanding)	—	27,500	213,400	465,900	339,000
	Yen				
Exercise price	—	¥10,000	¥10,721	¥11,906	¥13,123
Weighted average market value per share at the exercise date	—	13,723	16,296	16,713	—
Fair value per share at the grant date	—	1,479	1,202	1,552	2,004
	U.S. dollars				
Exercise price	—	\$90.09	\$96.59	\$107.26	\$118.23
Weighted average market value per share at the exercise date	—	123.63	146.81	150.57	—
Fair value per share at the grant date	—	13.32	10.83	13.98	18.05

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

Stock options granted on September 2, 2020

Expected volatility	27.38%
Expected remaining life	2.79 years
Expected dividend	220 yen
Risk-free interest rate	(0.109)%

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

The stock option expenses for the fiscal years ended March 31, 2020 and 2021 of ¥67 million and ¥88 million (\$793 thousand), 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, 2020 and 2021 were ¥0 million and ¥1 million (\$13 thousand), respectively.

Stock options as of March 31, 2021 were as follows:

	2016	2017	2018
	Grantees	10 Directors 17 Employees 7 Directors of its subsidiaries	10 Directors 19 Employees 6 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	491,000 shares of common stock	457,000 shares of common stock	487,000 shares of common stock
Grant date	September 12, 2016	September 12, 2017	September 12, 2018
Vesting conditions	None	None	None
Exercise period	September 13, 2018 through March 31, 2022	September 13, 2019 through March 31, 2023	September 13, 2020 through March 31, 2024
	2019	2020	
Grantees	9 Directors 23 Employees 6 Directors of its subsidiaries	9 Directors 25 Employees 5 Directors of its subsidiaries	
Number of stock options granted by category of stock (in shares)	456,000 shares of common stock	461,000 shares of common stock	
Grant date	September 11, 2019	September 10, 2020	
Vesting conditions	None	None	
Exercise period	September 12, 2021 through March 31, 2025	September 11, 2022 through March 31, 2026	

Movement in stock options during the fiscal year ended March 31, 2021 was as follows:

	Number of shares				
	2016	2017	2018	2019	2020
Beginning balance (Stock options outstanding)	262,000	452,000	487,000	456,000	—
Granted	—	—	—	—	461,000
Exercised	17,000	—	—	—	—
Forfeited	—	5,000	5,000	—	—
Ending balance (Stock options outstanding)	245,000	447,000	482,000	456,000	461,000
	Yen				
Exercise price	¥702	¥1,056	¥962	¥759	¥910
Weighted average market value per share at the exercise date	920.65	—	—	—	—
Fair value per share at the grant date	100	172	121	147	191
	U.S. dollars				
Exercise price	\$6.32	\$9.51	\$8.67	\$6.84	\$8.20
Weighted average market value per share at the exercise date	8.29	—	—	—	—
Fair value per share at the grant date	0.90	1.55	1.09	1.32	1.72

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

Stock options granted on September 10, 2020

Expected volatility	33.48%
Expected remaining life	3.78 years
Expected dividend	18 yen
Risk-free interest rate	(0.120)%

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2020 and 2021 mainly consisted of the following:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Shipping expenses	¥41,385	¥44,468	\$400,613
Salaries and allowances	25,811	29,345	264,371
Provision for bonuses for employees	1,269	1,225	11,043
Provision for bonuses for directors	736	706	6,365
Retirement benefit expenses	443	444	4,002
Depreciation and amortization	2,171	2,665	24,015
Provision of allowance for doubtful accounts	(204)	(513)	(4,626)

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the fiscal years ended March 31, 2020 and 2021 were ¥48,536 million and ¥51,264 million (\$461,842 thousand), respectively.

17. LOSS ON DISASTER

Loss on disaster was due to the Fukushima Prefecture Offshore Earthquake in February 2021.

18. LEASE TRANSACTIONS

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Future Lease Payments:			2021
Within one year	¥2,145	¥2,030	\$18,294
Over one year	5,374	4,445	40,051
	¥7,519	¥6,476	\$58,345

19. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in statutory tax rates of approximately 30.5% for the fiscal years ended March 31, 2020 and 2021.

The tax effects of significant temporary differences and tax loss carry forwards that resulted in deferred tax assets or liabilities at March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Deferred Tax Assets:			2021
Depreciation and amortization	¥13,543	¥13,588	\$122,418
Net defined benefit liability	10,773	11,949	107,649
Unrealized profit	8,091	8,939	80,539
Maintenance costs	5,527	4,972	44,796
Accrued bonuses	3,677	3,733	33,631
Unsettled accounts receivable and payable	3,461	3,393	30,568
Accrued enterprise taxes	2,074	2,565	23,111
Allowance for doubtful accounts	2,023	1,843	16,607
Tax loss carryforwards	874	1,351	12,172
Unrealized gains/losses on available-for-sale securities	297	263	2,369
Other	27,481	27,286	245,827
Valuation allowance	(4,626)	(4,947)	(44,568)
Total	¥73,199	¥74,938	\$675,124
Deferred Tax Liabilities:			
Depreciation and amortization	¥53,140	¥48,031	\$432,711
Unrealized gains/losses on available-for-sale securities	4,840	11,291	101,727
Reserve for special depreciation	93	67	610
Other	10,767	12,133	109,313
Total	¥68,842	¥71,524	\$644,363
Net deferred tax assets (liabilities)	¥4,356	¥3,414	\$30,761

A reconciliation of the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2020 and 2021 is as follows:

	2020	2021
Statutory tax rate	30.5 %	30.5 %
Rate difference from foreign subsidiaries	(2.9)	(3.2)
Equity in (earnings) losses of affiliates	(0.3)	(0.4)
Dividend and other non-taxable income	(2.0)	(1.8)
Elimination of intercompany dividend income	1.8	1.9
Tax deduction for research expenses and other	(1.2)	(1.6)
Entertainment and other non-deductible expenses	0.1	0.1
Other, net	(0.6)	0.2
Effective tax rate	25.3	25.6

20. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal years ended March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrealized gains (losses) on available-for-sale securities			
Amount arising during the year	¥(10,516)	¥22,900	\$206,311
Reclassification adjustment for gains and losses included in profit or loss	(7,793)	(1,627)	(14,663)
Unrealized gains (losses) on available-for-sale securities before tax	(18,309)	21,272	191,647
Tax effect	5,577	(6,485)	(58,425)
Unrealized gains (losses) on available-for-sale securities	(12,732)	14,787	133,222
Deferred gains (losses) on hedges			
Amount arising during the year	(2,930)	393	3,547
Reclassification adjustment for gains and losses included in profit or loss	(195)	(565)	(5,091)
Deferred gains (losses) on hedges before tax	(3,125)	(171)	(1,543)
Tax effect	595	264	2,386
Deferred gains (losses) on hedges	(2,530)	93	842
Foreign currency translation adjustments			
Amount arising during the year	(13,642)	(50,887)	(458,445)
Remeasurements of defined benefit plans			
Amount arising during the year	(5,708)	(5,095)	(45,906)
Reclassification adjustment for gains and losses included in profit or loss	815	1,359	12,249
Remeasurements of defined benefit plans before tax	(4,893)	(3,735)	(33,656)
Tax effect	2,521	2,725	24,550
Remeasurements of defined benefit plans	(2,371)	(1,010)	(9,106)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method			
Amount arising during the year	(127)	65	589
Reclassification adjustment for gains and losses included in profit or loss	2	5	47
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(125)	70	637
Total other comprehensive income (loss)	¥(31,401)	¥(36,946)	\$ (332,850)

21. 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 on demand and liquid investments easily convertible into cash that mature within approximately three months from the acquisition date and that have insignificant risk exposure in terms of fluctuation in value.

Reconciliations between cash and cash equivalents and the related accounts shown in the consolidated balance sheets as of March 31, 2020 and 2021 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and time deposits	¥836,448	¥866,882	\$7,809,753
Securities	251,377	286,039	2,576,936
Time deposits (maturities over three months)	(223,822)	(226,285)	(2,038,609)
Securities (maturities over three months)	(118,877)	(125,039)	(1,126,486)
Cash and cash equivalents	¥745,125	¥801,596	\$7,221,594

22. SEGMENT AND RELATED INFORMATION

1. Segment information

(1) Overview of reportable segments

The reportable segments in the Shin-Etsu Group are defined as individual units for which discrete financial information is available and that are subject to regular review to evaluate their operating results and allocate 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 based on specific products and services, consisting of the following six segments: "PVC/Chlor-Alkali Business", "Silicones Business", "Specialty Chemicals Business", "Semiconductor Silicon Business", "Electronics & Functional Materials Business" and "Processing, Trading & Specialized Services Business". Consequently, these six businesses are specified as reportable segments.

The 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, Vinyl Chloride-Vinyl Acetate Copolymer Resin
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
Processing, Trading & Specialized Services Business	Processed plastics, Export of plant equipment, Technology licensing, International trading, Engineering

(2) Calculation of income, assets and liabilities of reportable segments

Segment income denotes operating income, and the accounting methods applied are identical to those stated in the "Basis of presenting consolidated financial statements". Internal revenues and transfers arising from transactions among the segments are based on market prices in general.

Assets and liabilities are not allocated to business segments.

(3) Information on sales, income (loss) and other items of reportable segments

	Millions of yen							Adjustment ⁽¹⁾	Figures in consolidated financial statements
	2020								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Total		
Sales to outside customers	¥484,322	¥226,872	¥114,796	¥387,631	¥225,111	¥104,791	¥1,543,525	¥—	¥1,543,525
Intersegment sales	3,396	6,985	21,126	30	8,380	150,539	190,458	(190,458)	¥—
Total	¥487,719	¥233,857	¥135,923	¥387,661	¥233,492	¥255,330	¥1,733,984	¥(190,458)	¥1,543,525
Segment income (Operating income)	¥92,187	¥61,490	¥27,717	¥143,298	¥68,540	¥14,824	¥408,059	¥(2,018)	¥406,041
Depreciation and amortization	¥34,205	¥16,073	¥11,127	¥43,435	¥20,872	¥5,320	¥131,034	¥(391)	¥130,642
Amortization of goodwill	¥—	¥176	¥353	¥—	¥—	¥—	¥530	¥—	¥530
Increase in property, plant and equipment and intangible assets	¥102,098	¥35,500	¥18,834	¥58,908	¥46,262	¥5,308	¥266,913	¥(1,894)	¥265,018

Millions of yen									
2021									
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers	¥469,763	¥208,324	¥112,632	¥374,097	¥234,883	¥97,204	¥1,496,906	¥—	¥1,496,906
Intersegment sales	2,783	6,048	17,114	7	9,073	127,081	162,109	(162,109)	¥—
Total	¥472,547	¥214,373	¥129,746	¥374,105	¥243,957	¥224,285	¥1,659,015	¥(162,109)	¥1,496,906
Segment income (Operating income)	¥97,051	¥45,112	¥21,826	¥144,100	¥70,298	¥14,359	¥392,748	¥(535)	¥392,213
Depreciation and amortization	¥42,993	¥17,747	¥13,255	¥43,825	¥21,351	¥4,487	¥143,660	¥(508)	¥143,152
Amortization of goodwill	¥—	¥301	¥352	¥—	¥—	¥—	¥654	¥—	¥654
Increase in property, plant and equipment and intangible assets	¥96,162	¥26,276	¥14,791	¥41,697	¥47,370	¥4,082	¥230,382	¥(1,580)	¥228,801

Thousands of U.S. dollars									
2021									
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers	\$4,232,107	\$1,876,794	\$1,014,708	\$3,370,249	\$2,116,069	\$875,713	\$13,485,643	\$—	\$13,485,643
Intersegment sales	25,077	54,494	154,181	69	81,742	1,144,876	1,460,443	(1,460,443)	\$—
Total	\$4,257,185	\$1,931,289	\$1,168,889	\$3,370,319	\$2,197,812	\$2,020,589	\$14,946,086	\$(1,460,443)	\$13,485,643
Segment income (Operating income)	\$874,337	\$406,416	\$196,638	\$1,298,202	\$633,315	\$129,367	\$3,538,278	\$(4,825)	\$3,533,452
Depreciation and amortization	\$387,328	\$159,890	\$119,415	\$394,823	\$192,351	\$40,425	\$1,294,235	\$(4,576)	\$1,289,659
Amortization of goodwill	\$—	\$2,719	\$3,180	\$—	\$—	\$—	\$5,900	\$—	\$5,900
Increase in property, plant and equipment and intangible assets	\$866,331	\$236,729	\$133,259	\$375,652	\$426,760	\$36,780	\$2,075,514	\$(14,236)	\$2,061,277

Notes: [1] Elimination of intersegment transactions.

2. Related information
Geographic information

(1) Net sales

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net sales			
Japan	¥415,053	¥389,723	\$3,511,024
U.S.	335,306	343,290	3,092,704
China	156,093	151,766	1,367,268
Asia / Oceania (excluding China)	363,887	360,403	3,246,874
Europe	165,373	152,698	1,375,665
Other	107,810	99,023	892,105
Total	¥1,543,525	¥1,496,906	\$13,485,643

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Property, plant and equipment			
Japan	¥357,286	¥377,457	\$3,400,521
U.S.	569,733	584,142	5,262,546
Other	192,895	203,548	1,833,770
Total	¥1,119,915	¥1,165,149	\$10,496,838

3. Loss on impairment of fixed assets

Millions of yen								
2020								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	¥—	¥328	¥—	¥—	¥518	¥65	¥—	¥912

Millions of yen								
2021								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	¥—	¥47	¥176	¥79	¥—	¥633	¥—	¥936

Thousands of U.S. dollars								
2021								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	\$—	\$425	\$1,586	\$714	\$—	\$5,709	\$—	\$8,436

4. Amortization of goodwill and unamortized balance

Millions of yen								
2020								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥176	¥353	¥—	¥—	¥—	¥—	¥530
Unamortized balance	¥—	¥2,663	¥1,420	¥—	¥—	¥—	¥—	¥4,084

Millions of yen								
2021								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥301	¥352	¥—	¥—	¥—	¥—	¥654
Unamortized balance	¥—	¥2,079	¥1,103	¥—	¥—	¥—	¥—	¥3,183

Thousands of U.S. dollars								
2021								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Processing, Trading & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	\$—	\$2,719	\$3,180	\$—	\$—	\$—	\$—	\$5,900
Unamortized balance	\$—	\$18,734	\$9,943	\$—	\$—	\$—	\$—	\$28,677

23. RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties during the fiscal year ended March 31, 2020 are as follows:

Millions of yen							
Type	Name	Percentage of voting rights	Relationship	Transactions	Transaction amount (Thousands of shares)	Account	Balance at the fiscal year end
Director	Yasuhiko Saitoh	Direct Ownership 0.01%	Representative Director-President	Exercise of stock options (Note)	¥24 (2.4)	—	—
Director	Toshinobu Ishihara	Direct Ownership 0.00%	Senior Managing Director	Exercise of stock options (Note)	¥50 (5)	—	—
Director	Masahiko Todoroki	Direct Ownership 0.00%	Senior Managing Director	Exercise of stock options (Note)	¥24 (3)	—	—
Director	Fumio Arai	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥50 (5)	—	—
Director	Yukihiro Matsui	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥15 (1.5)	—	—
Director	Masaki Miyajima	Direct Ownership 0.01%	Managing Director	Exercise of stock options (Note)	¥29 (4)	—	—
Director	Kenji Ikegami	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥20 (2)	—	—
Director	Shunzo Mori	Direct Ownership 0.00%	Director - Adviser	Exercise of stock options (Note)	¥180 (18)	—	—
Director	Toshiyuki Kasahara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥29 (4)	—	—
Director	Yoshimitsu Takahashi	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥56 (5.5)	—	—
Director	Kai Yasuoka	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥36 (5)	—	—

(Note) Share subscription rights were approved at the Board of Directors meeting held on September 8, 2015, September 6, 2017 and August 21, 2018.

Transactions between the Company and related parties during the fiscal year ended March 31, 2021 are as follows:

Type	Name	Percentage of voting rights	Relationship	Transactions	Millions of yen			Thousands of U.S. dollars
					Transaction amount (Thousands of shares)	Account	Balance at the fiscal year end	Transaction amount (Thousands of shares)
Director	Chihiro Kanagawa	Direct Ownership 0.07%	Representative Director-Chairman	Exercise of stock options (Note)	¥300 (30)	—	—	\$2,702 (30)
Director	Fumio Akiya	Direct Ownership 0.00%	Representative Vice-Chairman	Exercise of stock options (Note)	¥394 (38)	—	—	\$3,553 (38)
Director	Yasuhiko Saitoh	Direct Ownership 0.01%	Representative Director-President	Exercise of stock options (Note)	¥370 (35.6)	—	—	\$3,337 (35.6)
Director	Susumu Ueno	Direct Ownership 0.00%	Senior Managing Director	Exercise of stock options (Note)	¥50 (5)	—	—	\$450 (5)
Director	Masahiko Todoroki	Direct Ownership 0.00%	Senior Managing Director	Exercise of stock options (Note)	¥115 (11)	—	—	\$1,036 (11)
Director	Toshiya Akimoto	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥125 (12)	—	—	\$1,133 (12)
Director	Fumio Arai	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥75 (7)	—	—	\$676 (7)
Director	Yukihiro Matsui	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥25 (2.5)	—	—	\$225 (2.5)
Director	Masaki Miyajima	Direct Ownership 0.01%	Managing Director	Exercise of stock options (Note)	¥125 (12)	—	—	\$1,133 (12)
Director	Kenji Ikegami	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥63 (6)	—	—	\$573 (6)
Director	Shunzo Mori	Direct Ownership 0.00%	Director - Adviser	Exercise of stock options (Note)	¥147 (13)	—	—	\$1,330 (13)
Director	Toshiyuki Kasahara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥40 (4)	—	—	\$366 (4)
Director	Kazumasa Maruyama	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥94 (9)	—	—	\$849 (9)
Director	Toshio Shiobara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥125 (11.5)	—	—	\$1,128 (10.5)
Director	Yoshimitsu Takahashi	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥120 (10.5)	—	—	\$1,088 (11.5)
Director	Kai Yasuoka	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥30 (3)	—	—	\$270 (3)
Director	Hidenori Onezawa	Direct Ownership 0.00%	Full-Time Audit & Supervisory Board Member	Exercise of stock options (Note)	¥80 (7.7)	—	—	\$724 (7.7)

(Note) Share subscription rights were approved at the Board of Directors meeting held on September 6, 2017, August 21, 2018 and September 13, 2019.

24. SUPPLEMENTARY INFORMATION

(Unapplied Accounting Standards)

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 26, 2021)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, issued on March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB), which jointly develop comprehensive accounting standards for revenue recognition, issued Revenue from Contracts with Customers (IASB: IFRS 15; FASB: Topic 606) in May 2014. IFRS 15 is effective from annual reporting periods beginning on or after January 1, 2018; FASB Topic 606 is effective from annual reporting periods beginning after December 15, 2017. In light of this development, the Accounting Standards Board of Japan (ASBJ) developed and issued a comprehensive accounting standard for revenue recognition and implementation guidance.

As a basic policy for developing ASBJ accounting standards for revenue recognition, from the perspective of comparability between financial statements, which is one benefit of conformity with IFRS 15, starting with incorporating the basic principles of IFRS 15, in the event accounting standards have been established, or if there are items to be considered for practical purposes that are pertinent in Japan, additional alternative accounting treatments will be provided to the extent that comparability is not impaired.

(2) Date of application

To be applied from the beginning of the fiscal year ending March 31, 2022

(3) Effect of application

The effect of applying the accounting standards on the consolidated financial statements is currently being evaluated.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, issued on July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, revised on July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, revised on July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, issued on July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, issued on March 31, 2020)

(1) Overview

The ASBJ promoted an initiative to enhance comparability of the requirements between the Japanese generally accepted accounting standards and International Financial Reporting Standards, primarily with regard to guidance on the fair values of financial instruments and their disclosures, and issued "Accounting Standard for Fair Value Measurement," etc., based on the fact that the IASB and the FASB have prescribed almost the similar detailed guidance (IFRS 13 "Fair Value Measurement" issued by IASB and Accounting Standard Codification Topic 820 "Fair Value Measurement" issued by FASB).

The ASBJ's fundamental policies adopted for developing "Accounting Standard for Fair Value Measurement," etc. are, in principle, to implement all the requirements of IFRS 13 from the viewpoint of enhancing the comparability of the financial statements of domestic and overseas companies by prescribing unified measurement methods, but also to prescribe exceptional treatments for individual matters so that comparability would not be impaired in consideration of accounting practices that have conventionally been adopted in Japan.

(2) Date of application

The accounting standards will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of application

The effect of applying the accounting standards on the consolidated financial statements is currently being evaluated.

25. CHANGES IN THE METHOD OF PRESENTATION

(Consolidated Statement of Income)

In the fiscal year ended March 31, 2020, "Loss on disposal of property, plant and equipment" had been included in "Other, net" under "Other Income (Expenses)." However, as Loss on disposal of property, plant and equipment has exceeded one-tenth of the total amount of other expenses, it is therefore presented as a separate item from the fiscal year ended March 31, 2021.

Furthermore, "Foreign exchange gain (loss)" had been listed as a separate item under "Other Income (Expenses)." However, as Foreign exchange loss has decreased to less than one-tenth of the total amount of other expenses, it is therefore included in "Other, net" from the fiscal year ended March 31, 2021.

In order to reflect these changes in the method of presentation, the Company has reclassified the consolidated financial statements for the previous fiscal year. As a result, the ¥(5,650) million that had been presented in "Foreign exchange gain (loss)" and the ¥(3,892) million that had been presented in "Other, net" under "Other Income (Expenses)" on the consolidated statement of income for the fiscal year ended March 31, 2020 have been reclassified into "Loss on disposal of property, plant and equipment" of ¥(1,202) million and "Other, net" of ¥(8,340) million.

(Application of "Accounting Standard for Disclosure of Accounting Estimates")

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) is applied from the first quarter of the fiscal year ended March 31, 2021. In addition, "Accounting estimates" is disclosed in the notes to consolidated financial statements.

Based on the transitional treatment outlined in article 11 of the accounting standard, information applicable to the fiscal year ended March 31, 2020 is not stated in the corresponding notes.

26. ACCOUNTING ESTIMATES

In preparing the consolidated financial statements, the Company makes estimates and assumptions based on the situation at the end of the period, but certain items that are considered to have a significant impact on the consolidated financial statements are described as follows.

Impairment of property, plant and equipment

As of March 31, 2021, the balance of property, plant and equipment was ¥1,165,149 million, accounting for 34% of total assets. Impairment should be considered when economic trends in countries and regions where major product markets are located or increased price competition due to lower global demand negatively impact business performance. When considering impairment, the process of asset grouping and estimating indications of impairment is complex and subjective, and future cash flow estimates are based on many assumptions, so it is necessary to assess the prerequisites carefully. As a result, depending on the amount of estimated future cash flows, there is a possibility that loss on impairment of fixed assets will be recorded.

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

Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End	Principal Consolidated Subsidiaries	Percentage of Voting Rights	Fiscal Year-End
Shintech Inc.*	100.0	December 31	Skyward Information System Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31	Shinano Electric Refining Co., Ltd.	100.0	March 31
Shin-Etsu Handotai America, Inc.*	100.0	December 31	Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu PVC B.V.*	100.0	December 31	Shin-Etsu Film Co., Ltd.	100.0	March 31
S.E.H. Malaysia Sdn. Bhd.*	100.0	December 31	Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Shin-Etsu Polymer Co., Ltd.	53.3	March 31	Shin-Etsu Polymer America, Inc.*	100.0	December 31
SE Tylose GmbH & Co. KG*	100.0	December 31	Naoetsu Sangyo Limited	100.0	March 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Shinken Total Plant Co., Ltd.	100.0	February 28
Shin-Etsu Astech Co., Ltd.	99.6	March 31	Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Taiwan Co., Ltd.*	70.0	December 31	Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Silicones (Thailand) Ltd.*	100.0	December 31	Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Simcoa Operations Pty. Ltd.*	100.0	December 31	Shin-Etsu Polymer India Pvt. Ltd.*	100.0	December 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31	PT. Shin-Etsu Polymer Indonesia*	100.0	December 31
Asia Silicones Monomer Limited*	100.0	December 31	Shin-Etsu Polymer Singapore Pte. Ltd.*	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28	Shin-Etsu Polymer Shanghai Co., Ltd.*	100.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28	Shin-Etsu Polymer Hong Kong Co., Ltd.*	100.0	December 31
Shin-Etsu Handotai Europe, Ltd.*	100.0	December 31	Shin-Etsu Polymer Hungary Kft.*	100.0	December 31
S-E, Inc.*	100.0	December 31	Shin-Etsu Polymer (Thailand) Ltd.*	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.*	100.0	December 31	Dongguan Shin-Etsu Polymer Co., Ltd.*	100.0	December 31
Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd.*	100.0	December 31	Human Create Co., Ltd.	100.0	March 31
Shin-Etsu Finetech Co., Ltd.	100.0	March 31	Suzhou Shin-Etsu Polymer Co., Ltd.*	100.0	December 31
Shin-Etsu Magnetics Philippines, Inc.*	100.0	December 31	S.E.H. (Shah Alam) Sdn. Bhd.*	100.0	December 31
CIRES, Lda.*	100.0	December 31	SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD.*	100.0	December 31
Shin-Etsu Singapore Pte. Ltd.*	100.0	December 31	SE Tylose USA, Inc.*	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.*	100.0	December 31	K-Bin, Inc.*	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.*	100.0	December 31	Shin-Etsu Silicone (Nantong) Co., Ltd.*	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28	Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.*	75.0	December 31
Shin-Etsu MicroSi, Inc.*	100.0	December 31	Kashima Chlorine & Alkali Co., Ltd.	79.0	March 31
Shin-Etsu Silicone Taiwan Co., Ltd.*	93.3	December 31	Kashima Vinyl Chloride Monomer Co., Ltd.	70.6	March 31
Shin-Etsu Silicones of America, Inc.*	100.0	December 31	Shin-Etsu Magnetic Materials Vietnam Co., Ltd.*	100.0	December 31
Shin-Etsu Silicones Europe B.V.*	100.0	December 31	Shin-Etsu Electronics Materials Taiwan Co., Ltd.*	100.0	December 31
Shin-Etsu Opto Electronic Co., Ltd.*	80.0	December 31	Shin-Etsu YOFC (Hubei) Optical Preform Co., Ltd.*	51.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.*	100.0	December 31	Shin-Etsu Polymer Vietnam Co., Ltd.*	100.0	December 31
Shin-Etsu Polymer Europe B.V.*	100.0	December 31	Shin-Etsu Electronics (Malaysia) Sdn.Bhd.*	100.0	December 31
Shin-Etsu International Europe B.V.*	100.0	December 31	Shin-Etsu (Hong Kong) Co., Ltd.*	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31	Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd.*	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28	Shin-Etsu New Materials (Thailand) Limited*	100.0	December 31
*Overseas subsidiary			23 other consolidated subsidiaries		

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Satisfaction of revenue recognition criteria	
Description of Key Audit Matter	Auditor's Response
<p>Shin-Etsu Chemical Co., Ltd. (the Company), along with its consolidated subsidiaries, is a chemical manufacturer that conducts business activities involving various products and services and whose operations are comprised of six business segments.</p> <p>Although revenue is ordinarily recognized when the risks and rewards of a product are transferred to the customer, the policies for recording sales at the Company vary depending on a diverse range of specific contract terms since the Company sells a wide range of products to customers, not only in Japan, but also in various countries worldwide. In addition, although sales transactions are controlled and processed in sales systems and the related data is automatically entered into the accounting system, there are some transactions for which additional entries are made directly into the accounting system.</p> <p>Accordingly, the recording of revenue at the Company is relatively complex and, furthermore, there is a possibility that mistakes could be made in determining the satisfaction of revenue recognition criteria.</p> <p>Based on the above, we determined this to be a key audit matter.</p>	<p>We performed the following audit procedures in assessing whether the revenue recognition criteria were satisfied, among others:</p> <ul style="list-style-type: none"> • We evaluated the design and operating effectiveness of internal controls related to the sales process, including IT general controls and application controls over the sales systems. • We tested sales transactions selected in consideration of their quantitative and qualitative materiality and randomly selected sales transactions by agreeing the dates on which sales were recorded and the amounts thereof to related source documents. • For sales transactions occurring just before and after the fiscal year end, after performing a daily analysis, we randomly selected specific samples as deemed necessary. We tested the sales transactions selected by agreeing the dates on which the sales were recorded to related source documents, in order to evaluate the timing of revenue recognition. • We confirmed the balance of accounts receivable-trade directly with specific customers. We selected customers subject to external confirmation procedures both in consideration of quantitative materiality and on a random basis. • For major sales transactions for which additional entries are made directly into the accounting system, we assessed the transactions by inspecting related source documents. • We assessed whether sales transactions with major customers are recorded on the basis of the contract terms by inspecting related source documents such as written contracts with the customers..

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 29, 2021

/s/ Yuji Mukaide
Designated Engagement Partner
Certified Public Accountant

/s/ Noriaki Kenmochi
Designated Engagement Partner
Certified Public Accountant

/s/ Yasuyuki Kitamura
Designated Engagement Partner
Certified Public Accountant