

Shin-Etsu Chemical Co., Ltd.

# Annual Report 2022

Financial Section

# Ten-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the fiscal years ended March 31, 2013 through 2022

Millions of yen

	2013	2014	2015	2016
<b>For the year:</b>				
Net sales	¥1,025,409	¥1,165,819	¥1,255,543	¥1,279,807
Cost of sales	769,427	873,879	940,399	930,019
Selling, general and administrative expenses	98,938	118,130	129,814	141,262
Operating income	157,043	173,809	185,329	208,525
Ordinary income	170,207	180,605	198,025	220,005
Net income attributable to owners of parent	105,714	113,617	128,606	148,840
Capital expenditures	86,841	83,155	109,903	134,753
R&D costs	37,671	43,546	47,165	53,165
Depreciation and amortization	80,961	91,445	96,918	100,466
<b>At year-end:</b>				
Total assets	¥1,920,903	¥2,198,912	¥2,452,306	¥2,510,085
Working capital (Current assets - Current liabilities)	832,878	981,667	1,100,999	1,170,679
Common stock	119,419	119,419	119,419	119,419
Net assets	1,623,176	1,822,135	2,012,711	2,080,465
Interest-bearing debt	13,929	15,638	14,328	13,470
<b>Per share (Yen and U.S. dollars):</b>				
Net income per share—basic	¥248.94	¥267.20	¥302.05	¥349.46
Net income per share—fully diluted (Note 2)	248.92	267.07	301.98	349.42
Cash dividends	100.00	100.00	100.00	110.00
Payout ratio (%)	40.2	37.4	33.1	31.5
Net assets	3,709.19	4,165.28	4,602.80	4,761.48
<b>General:</b>				
Operating income to net sales ratio (%)	15.3	14.9	14.8	16.3
Net income attributable to owners of parent to net sales ratio (%)	10.3	9.7	10.2	11.6
ROIC (%)	8.9	9.4	9.9	11.4
ROE (%)	7.0	6.8	6.9	7.5
ROA (%)	9.1	8.8	8.5	8.9
Equity ratio (%)	82.0	80.6	79.9	80.8
PBR (times)	1.7	1.4	1.7	1.2
PER (times)	25.1	22.1	26.0	16.7
Number of employees	17,712	17,892	18,276	18,407
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 ¥122 = US\$1, the approximate rate of exchange on March 31, 2022.

2. The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards were applied from the beginning of the fiscal year ended March 31, 2022. Accordingly, the main management indicators, etc., for the current fiscal year are those after application of said Accounting Standard, etc.

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.

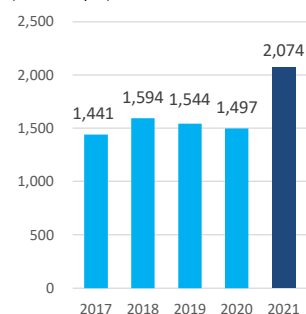
Millions of yen						Thousands of U.S. dollars (Note 3)
2017	2018	2019	2020	2021	2022	2022
¥1,237,405	¥1,441,432	¥1,594,036	¥1,543,525	¥1,496,906	¥2,074,428	\$17,003,511
868,404	963,008	1,039,979	987,782	953,203	1,206,425	9,888,735
130,383	141,601	150,352	149,702	151,489	191,680	1,571,151
238,617	336,822	403,705	406,041	392,213	676,322	5,543,623
242,133	340,308	415,311	418,242	405,101	694,434	5,692,082
175,912	266,235	309,125	314,027	293,732	500,117	4,099,325
145,647	176,283	240,618	265,018	228,801	213,918	1,753,427
49,020	51,768	56,436	48,536	51,264	62,455	511,930
93,087	112,016	137,570	131,172	143,807	168,788	1,383,511
¥2,655,636	¥2,903,137	¥3,038,717	¥3,230,485	¥3,380,615	¥4,053,412	\$33,224,689
1,232,607	1,324,495	1,358,614	1,446,724	1,551,662	1,960,216	16,067,350
119,419	119,419	119,419	119,419	119,419	119,419	978,849
2,190,082	2,413,025	2,532,556	2,723,141	2,886,625	3,429,208	28,108,262
14,642	15,814	14,920	30,383	34,456	38,957	319,322
¥412.86	¥624.28	¥725.99	¥755.17	¥706.76	¥1,203.80	\$9.867
412.83	624.10	725.92	755.01	706.26	1,202.75	9.859
120.00	140.00	200.00	220.00	250.00	400.00	3.279
29.1	22.4	27.5	29.1	35.4	33.2	33.2
5,002.16	5,511.98	5,915.47	6,377.93	6,769.72	8,007.24	65.633
19.3	23.4	25.3	26.3	26.2	32.6	32.6
14.2	18.5	19.4	20.3	19.6	24.1	24.1
14.0	18.2	21.5	19.4	17.2	27.2	27.2
8.5	11.9	12.8	12.3	10.7	16.3	16.3
9.4	12.2	14.0	13.3	12.3	18.7	18.7
80.3	81.0	81.1	82.1	83.2	82.1	82.1
1.9	2.0	1.6	1.7	2.7	2.3	2.3
23.4	17.6	12.8	14.2	26.3	15.6	15.6
19,206	20,155	21,735	22,783	24,069	24,954	24,954
432,106	432,106	427,606	416,662	416,662	416,662	416,662

# Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

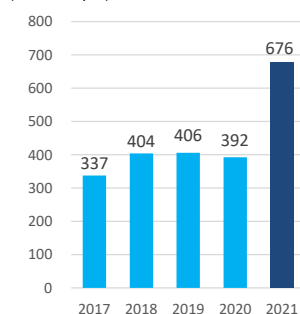
## Net Sales

(Billions of yen)



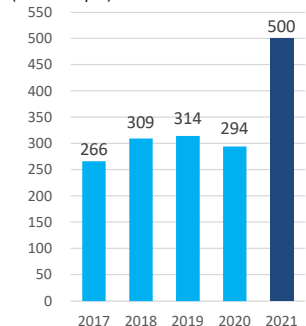
## Operating Income

(Billions of yen)



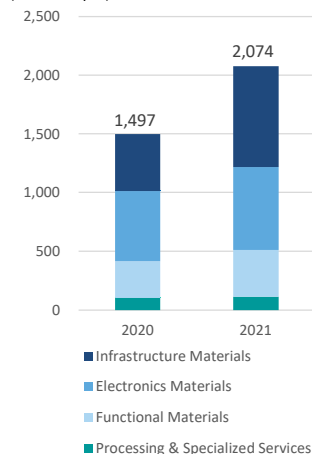
## Net Income Attributable to Owners of Parent

(Billions of yen)



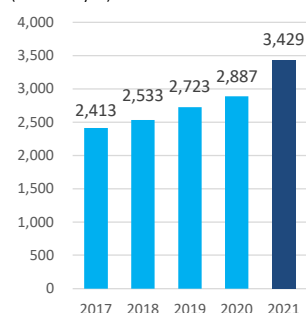
## Net Sales by Business Segment

(Billions of yen)



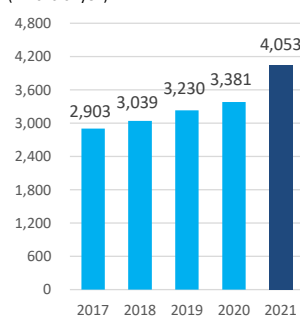
## Total Net Assets

(Billions of yen)



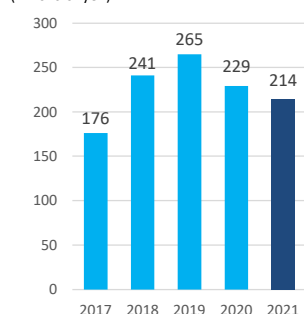
## Total Assets

(Billions of yen)



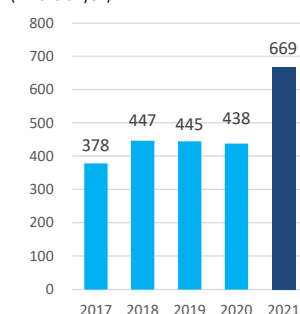
## Capital Expenditures

(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"), 132 subsidiaries, and 12 affiliates (as of March 31, 2022). The Group is engaged in the manufacture and sales of PVC and caustic soda as the core of the Infrastructure Materials business, the manufacture and sales of semiconductor silicon, rare earth magnets, photoresists, photomask blanks, and synthetic quartz products as the core of the Electronics Materials business, the manufacture and sales of silicones, cellulose derivatives, and silicon metals as the core of the Functional Materials business, and the Processing & Specialized Services business which conducts Shin-Etsu Polymer Group business and engages in construction, repairs, and the provision of various other services. The Group conducts business activities including manufacturing and sales through mutual cooperation among all Group companies.

## Consolidated Operating Performance

During FY2021 (from April 1, 2021 to March 31, 2022), the world economy continued to grow steadily, as indicated by the economic growth rate (GDP growth rate) of over 5%. On the other hand, Russia invaded Ukraine in February 2022, while the major economic zones continued to grapple with the COVID-19 pandemic, supply turmoil, price pressures, and other challenges. This world-shattering situation is still going on. We will continue to respond with alacrity and without prejudice to changing circumstances. Going forward, we will continue to give the utmost priority to the health and safety of our employees, focus on business requirements such as maintaining high operations, ensuring a stable supply, and protecting accounts receivables, and maintain communication with our customers. We will promote the development of valuable products and provide a stable supply of products of unwavering quality.

As a result, net sales in FY2021 increased 38.6% (¥577,522 million) compared to the previous fiscal year, amounting to ¥2,074,428 million. Operating income was ¥676,322 million, an increase of 72.4% (¥284,109 million) from the previous fiscal year. Ordinary income increased 71.4% (¥289,333 million) to ¥694,434 million over the previous fiscal year. Net income attributable to owners of parent was ¥500,117 million, an increase of 70.3% (¥206,385 million) compared with the previous fiscal year.

## Business Segment Overview

### Infrastructure Materials

The demand for both PVC and caustic soda remained strong, and we worked to raise product prices in light of the raw material situation that occurred earlier this year. We continued full operation at all bases, including Shintech, Inc. in the United States, except for the scheduled maintenance period of each plant.

Consequently, segment sales rose 76.4% (¥371,322 million) compared to the previous fiscal year, amounting to ¥857,189 million. Segment operating income was ¥317,792 million, up 219.1% (¥218,191 million) year on year.

### Electronics Materials

The global supply shortage of semiconductor devices has not been resolved yet. To meet the strong demand from customers, we shipped the maximum number of semiconductor materials such as silicon wafers, photoresists, and photomask blanks. Even with respect to rare earth magnets, despite the restrictions on operations in production bases in Asia due to coronavirus infections and natural disasters, we operated as much as possible in order to meet the vigorous demands in all areas such as automobiles, industrial equipment, and hard disks.

Consequently, segment sales increased to ¥708,979 million, up 19.0% (¥113,303 million) compared to the previous fiscal year. Segment operating income amounted to ¥244,778 million, up 18.8% (¥38,693 million) year on year.

### Functional Materials

Amid the continuing global logistics turmoil, we made efforts to maximize shipments and worked on price adjustments in response to high raw material prices. At the same time, we launched a lot of distinctive products to increase sales. We have also started raising prices for cellulose derivatives products.

Segment sales consequently increased to ¥395,626 million, up 25.9% (¥81,354 million) compared to the previous fiscal year. Segment operating income was ¥94,774 million, grew 34.0% (¥24,063 million) year on year.

### Processing & Specialized Services

Shipments of semiconductor wafer-related containers were strong for both transporting use and manufacturing process use, and sales of input devices for automobiles were also robust. Sales of PVC wrapping film for food packaging increased due to business acquisition. We have raised prices for silicone-related products and PVC-related products.

As a result, segment sales increased to ¥112,632 million, up 11.4% (¥11,542 million) compared to the previous fiscal year. Segment operating income amounted to ¥20,910 million, up 28.1% (¥4,590 million) year on year.

## Analysis of Financial Position

At the end of FY2021 (March 31, 2022), total assets increased by ¥672,797 million compared with the end of the previous fiscal year to ¥4,053,412 million. It was mainly due to increases in cash and time deposits, trade receivables, and property, plant and equipment.

Total liabilities increased by ¥130,214 million from the end of the previous fiscal year to ¥624,204 million.

As of March 31, 2022, total net assets amounted to ¥3,429,208 million, rising year on year as ¥500,117 million in net income attributable to owners of parent offset impact from ¥120,481 million in cash dividends.

As a result, the equity ratio came to 82.1%, down 1.1 percentage points from its previous level of 83.2%, and net assets per share increased by ¥1,237.52 compared with the previous fiscal year, to ¥8,007.24.

Return on invested capital (ROIC) was 27.2%, up 10.0 percentage points from its previous level of 17.2%, and return on equity (ROE) was 16.3%, rose 5.6 percentage points from its previous level of 10.7%. The full-year dividend per share was increased by ¥150 compared to the previous fiscal year, to ¥400 per share.

### Cash Flows

The balance of cash and cash equivalents (net cash) at the end of FY2021 increased by 25.9% (¥207,329 million) compared with the end of the previous fiscal year to ¥1,008,925 million.

#### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥553,528 million, an increase of ¥152,352 million from the previous fiscal year. This consisted mainly of ¥696,137 million in income before income taxes and non-controlling interests, ¥168,788 million in depreciation and amortization, and ¥147,448 million for the payment of income taxes.

#### Cash Flows from Investing Activities

Net cash used in investing activities increased by ¥3,004 million from the previous fiscal year to ¥253,723 million. This was mainly due to ¥195,775 million for purchases of property, plant and equipment and ¥40,783 million for net increase in time deposits.

#### Cash Flows from Financing Activities

Net cash used in financing activities increased by ¥31,381 million from the previous fiscal year to ¥122,504 million. This was mainly due to a cash dividend payment of ¥120,481 million and ¥5,954 million for purchases of treasury stock.

As of March 31, 2022, cash, deposits, and available-for-sale securities (current assets) including negotiable deposits totaled ¥1,436,081 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 ¥270.0 billion during the fiscal year ending March 31, 2023, up approximately 26% from FY2021. We expect to fund this amount internally.

### Capital Expenditures

During the fiscal year under review, capital expenditures totaled ¥213,918 million, across the Infrastructure Materials, Electronics Materials, Functional Materials, and Processing & Specialized Services.

Capital expenditures in the Infrastructure Materials came to ¥62,914 million. The key expenditure was a new integrated PVC production facility at Shintech, Inc.

In the Electronics Materials, capital expenditures totaled ¥106,543 million. Key capital expenditures included the responding to increasingly high semiconductor silicon wafer quality requirements and reinforcing facilities at Shin-Etsu Handotai Co., Ltd. and the enhancement of photoresist manufacturing equipment at the Company.

In the Functional Materials, capital expenditures amounted to ¥37,380 million. Major expenditures went toward the enhancement and streamlining of silicone product manufacturing facilities.

Capital expenditures in the Processing & Specialized Services amounted to ¥9,424 million.

The Company and its consolidated subsidiaries primarily met these capital expenditure requirements through the use of internal funds.

### Basic Policy Concerning Profit-Sharing

We are focusing on expanding profitability and maintaining a solid financial base, with the basic policy of returning the fruits of such management efforts to our shareholders in a proper, stable manner from a long-term perspective. We strive to increase our corporate value by aggressively and timely using our internal reserves for enhanced global competitiveness, further business development, and further growth. We will also maintain our solid financial base so that we can face the increasing frequency and amplitude of economic fluctuations that may occur. Based on this policy, we attach importance to shareholder return as part of our capital policy and strive to provide, while considering various circumstances, stable dividends at a dividend payout ratio of around 35% in the medium to long term.

Accordingly, the year-end dividend for the fiscal year was ¥250 per share, which was higher than the interim dividend of ¥150 per share at the end of the second quarter. As a result, the annual dividend was ¥400 per share, ¥150 up from the previous fiscal year, which was an increase for seven consecutive fiscal years.

### Business Risks

Described below are risks that management has identified as significant. These risks are associated with Shin-Etsu Chemical's consolidated financial position, operational performance, or its consolidated cash flow.

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, 2022) 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 key markets for our products exist may give 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 products or intensified price competition could have a significant impact on the Group's business results.

#### 2) Influence of Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 77% of the Group's consolidated net sales in FY2021, and this ratio is expected to remain at a high level going forward. The Japanese yen equivalent amounts of items in the financial statements 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 the risks of fluctuations in foreign exchange rates, thus the potential impact might be similar.

#### 3) Influence of Natural Disasters and Disastrous Accidents

To minimize the potential damage that could result from an interruption of production activities, the Group performs regular disaster-prevention inspections and carries out facility maintenance activities at its production facilities. It also makes facility investments to enhance safety, while establishing multiple manufacturing bases. However, in the case where a natural disaster, disastrous accident, or other unforeseen event damages production facilities or other areas, or where supply chains are interrupted, there is a possibility that the Group's business results will be significantly affected.

#### **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 laws concerning commercial transactions, labor, patents, taxes, foreign exchange, and other items. Any changes in these regulations and laws could have a significant impact on the Group's business results.

#### **5) Influence of Supply Factors on Procurement of Materials**

The Group uses various raw materials in its production activities and strives to assure a stable supply of these materials by diversifying its supply sources. However, in the case where there is a tight supply of materials or a delay in procuring these materials, where trade policies in supplier countries are changed, or where prices are increased because of these events, there is a possibility that the Group's business results will be significantly affected.

#### **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. We are constantly working on developing the most advanced cutting-edge materials to meet the 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 impact on the Group's business results. Similarly, with respect to the 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, making it more difficult for us to technologically respond to and requiring large-scale capital expenditures and other investments as a result, there could be a significant impact on the Group's business results.

#### **8) Influence of Product Liability**

The Group makes every effort to maintain the optimum quality of its products in accordance with the characteristics of each product. However, in the case where a quality-related problem occurs due to unforeseen circumstances, there is a possibility that the Group's business results will be significantly affected.

#### **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 causing damage to the Company's business locations and supply chain. Such circumstances could have a significant impact on the Group's business results.

# Consolidated Balance Sheet

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

As of March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits (Note 24)	¥866,882	¥1,112,775	\$9,121,113
Notes and accounts receivable-trade	343,896	-	-
Notes, accounts receivable-trade and contract assets (Note 4)	-	473,513	3,881,254
Securities (Notes 6 and 24)	286,039	323,305	2,650,043
Merchandise and finished goods	157,401	201,478	1,651,462
Work in process	13,102	15,422	126,416
Raw materials and supplies	194,528	236,759	1,940,649
Other	59,085	80,539	660,162
Less: Allowance for doubtful accounts	(6,028)	(5,818)	(47,693)
Total current assets	1,914,909	2,437,975	19,983,408
<b>Fixed Assets:</b>			
<b>Property, Plant and Equipment</b> (Note 9)			
Buildings and structures, net	206,246	246,154	2,017,661
Machinery and equipment, net	559,992	788,524	6,463,315
Land	90,159	94,043	770,847
Construction in progress	290,901	140,162	1,148,870
Other, net	17,850	21,280	174,434
Total property, plant and equipment	1,165,149	1,290,165	10,575,129
<b>Intangible Assets</b>	8,922	10,535	86,358
<b>Investments and Other Assets:</b>			
Investments in securities (Notes 6 and 8)	150,573	161,338	1,322,442
Net defined benefit asset (Note 11)	3,782	3,920	32,134
Deferred tax assets (Note 22)	58,703	65,594	537,660
Other (Note 8)	80,756	89,703	735,278
Less: Allowance for doubtful accounts	(2,180)	(5,822)	(47,724)
Total investments and other assets	291,635	314,734	2,579,792
Total fixed assets	1,465,706	1,615,436	13,241,280
<b>Total Assets</b>	¥3,380,615	¥4,053,412	\$33,224,689

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



	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable-trade	¥125,410	¥177,682	\$1,456,413
Short-term borrowings (Note 10)	11,768	13,461	110,343
Accounts payable-other	63,595	81,350	666,811
Accrued expenses	69,226	69,197	567,196
Accrued income taxes	48,049	73,756	604,558
Accrued bonuses for employees	3,663	4,147	33,996
Accrued bonuses for directors	707	599	4,913
Other	40,825	57,562	471,824
Total current liabilities	363,246	477,759	3,916,057
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 10)	15,986	16,940	138,858
Deferred tax liabilities (Note 22)	55,289	66,833	547,816
Net defined benefit liability (Note 11)	41,456	41,469	339,912
Other	18,011	21,201	173,780
Total long-term liabilities	130,743	146,444	1,200,368
<b>Total Liabilities</b>	493,990	624,204	5,116,426
<b>Commitment and Contingent Liabilities</b> (Note 12)			
<b>NET ASSETS</b>			
<b>Stockholders' Equity:</b>			
Common stock:	119,419	119,419	978,849
Authorized: 1,720,000,000 shares			
Issued: 416,662,793 shares and 416,662,793 shares as of March 31, 2021 and 2022, respectively			
Additional paid-in capital	128,954	129,090	1,058,118
Retained earnings (Note 13)	2,616,081	2,993,026	24,533,005
Less: Treasury stock, at cost	(12,612)	(15,702)	(128,709)
1,115,572 shares and 1,218,008 shares as of March 31, 2021 and 2022, respectively			
Total stockholders' equity	2,851,842	3,225,834	26,441,264
<b>Accumulated Other Comprehensive Income:</b>			
Unrealized gains (losses) on available-for-sale securities	25,027	26,841	220,012
Deferred gains (losses) on hedges	(2,703)	(2,535)	(20,786)
Foreign currency translation adjustments	(58,618)	75,374	617,823
Remeasurements of defined benefit plans	(2,409)	1,049	8,604
Total accumulated other comprehensive income	(38,704)	100,729	825,653
<b>Share Subscription Rights</b> (Note 14)	2,014	2,733	22,407
<b>Non-controlling Interests in Consolidated Subsidiaries</b>	71,473	99,910	818,937
Total net assets	2,886,625	3,429,208	28,108,262
<b>Total Liabilities and Net Assets</b>	¥3,380,615	¥4,053,412	\$33,224,689

# Consolidated Statement of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the fiscal years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
<b>Net Sales</b> (Notes 16, 25 and 26)	¥1,496,906	¥2,074,428	\$17,003,511
<b>Cost of Sales</b> (Notes 11 and 18)	953,203	1,206,425	9,888,735
Gross profit	543,702	868,002	7,114,775
<b>Selling, General and Administrative Expenses</b> (Notes 11, 17 and 18)	151,489	191,680	1,571,151
Operating income (Note 26)	392,213	676,322	5,543,623
<b>Other Income (Expenses):</b>			
Equity in earnings (losses) of affiliates	5,364	7,140	58,524
Foreign exchange gain (Note 30)	137	14,265	116,929
Loss on retirement of property, plant and equipment	(1,954)	(2,814)	(23,070)
Provision of allowance for doubtful accounts (Note 30)	-	(3,640)	(29,840)
Other, net (Note 30)	9,340	3,161	25,916
Ordinary income	405,101	694,434	5,692,082
<b>Extraordinary income:</b>			
Gain on sales of property, plant and equipment (Note 19)	-	1,703	13,962
<b>Extraordinary loss:</b>			
Loss on disaster (Note 20)	2,955	-	-
Income before income taxes and non-controlling interests	402,145	696,137	5,706,045
<b>Income Taxes</b> (Note 22):			
Current	105,356	172,596	1,414,724
Deferred	(2,387)	(1,491)	(12,221)
Total Income Taxes	102,968	171,105	1,402,503
<b>Net Income</b>	299,177	525,032	4,303,542
<b>Net Income Attributable to Non-Controlling Interests</b>	(5,444)	(24,914)	(204,216)
<b>Net Income Attributable to Owners of Parent</b>	¥293,732	¥500,117	\$4,099,325
			U.S. dollars (Note 3)
<b>Earnings per Share :</b>			
Net income attributable to owners of parent—basic	¥706.76	¥1,203.80	\$9.867
Net income attributable to owners of parent—fully diluted	706.26	1,202.75	9.859
Cash dividends	250.00	400.00	3.279
<b>Weighted-Average Number of Shares Outstanding (Thousands)</b>	415,602	415,449	415,449

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, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
<b>Net Income</b>	¥299,177	¥525,032	\$4,303,542
<b>Other Comprehensive Income</b> (Note 23):			
Unrealized gains (losses) on available-for-sale securities	14,787	1,821	14,929
Deferred gains (losses) on hedges	93	171	1,408
Foreign currency translation adjustments	(50,887)	137,079	1,123,599
Remeasurements of defined benefit plans	(1,010)	3,465	28,409
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	70	668	5,478
Total other comprehensive income (loss)	(36,946)	143,206	1,173,824
<b>Comprehensive Income</b>	¥262,230	¥668,238	\$5,477,367
(Breakdown)			
Comprehensive income attributable to owners of parent	¥257,106	¥639,552	\$5,242,231
Comprehensive income attributable to non-controlling interests	5,123	28,686	235,135

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
<b>Balance at April 1, 2020</b>	416,662	¥119,419	¥128,323	¥2,413,769	¥(7,123)	¥2,654,388
Cash dividends (Note 13)				(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						
<b>Balance at March 31, 2021</b>	416,662	¥119,419	¥128,954	¥2,616,081	¥(12,612)	¥2,851,842

	Millions of yen							
	Accumulated Other Comprehensive Income					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	Total			
<b>Balance at April 1, 2020</b>	¥10,296	¥(2,799)	¥(8,187)	¥(1,387)	¥(2,078)	¥1,904	¥68,927	¥2,723,141
Cash dividends (Note 13)								(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)
<b>Balance at March 31, 2021</b>	¥25,027	¥(2,703)	¥(58,618)	¥(2,409)	¥(38,704)	¥2,014	¥71,473	¥2,886,625

	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
<b>Balance at April 1, 2021</b>	<b>416,662</b>	<b>¥119,419</b>	<b>¥128,954</b>	<b>¥2,616,081</b>	<b>¥(12,612)</b>	<b>¥2,851,842</b>
Cumulative effects of changes in accounting policies				(2,133)		(2,133)
Restated balance		119,419	128,954	2,613,947	(12,612)	2,849,708
Cash dividends (Note 13)				(120,481)		(120,481)
Net income attributable to owners of parent				500,117		500,117
Change of scope of consolidation				(556)		(556)
Purchase of treasury stock					(5,954)	(5,954)
Disposal of treasury stock			111		2,864	2,975
Others			24			24
Net changes of items other than stockholders' equity						
<b>Balance at March 31, 2022</b>	<b>416,662</b>	<b>¥119,419</b>	<b>¥129,090</b>	<b>¥2,993,026</b>	<b>¥(15,702)</b>	<b>¥3,225,834</b>

	Millions of yen							
	Accumulated Other Comprehensive Income					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	Total			
<b>Balance at April 1, 2021</b>	<b>¥25,027</b>	<b>¥(2,703)</b>	<b>¥(58,618)</b>	<b>¥(2,409)</b>	<b>¥(38,704)</b>	<b>¥2,014</b>	<b>¥71,473</b>	<b>¥2,886,625</b>
Cumulative effects of changes in accounting policies								(2,133)
Restated balance	25,027	(2,703)	(58,618)	(2,409)	(38,704)	2,014	71,473	2,884,491
Cash dividends (Note 13)								(120,481)
Net income attributable to owners of parent								500,117
Change of scope of consolidation								(556)
Purchase of treasury stock								(5,954)
Disposal of treasury stock								2,975
Others								24
Net changes of items other than stockholders' equity	1,814	167	133,993	3,459	139,434	719	28,437	168,590
<b>Balance at March 31, 2022</b>	<b>¥26,841</b>	<b>¥(2,535)</b>	<b>¥75,374</b>	<b>¥1,049</b>	<b>¥100,729</b>	<b>¥2,733</b>	<b>¥99,910</b>	<b>¥3,429,208</b>

	Thousands	Thousands of U.S. dollars (Note 3)				
	Number of shares of common stock	Stockholders' Equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
<b>Balance at April 1, 2021</b>	<b>416,662</b>	<b>\$978,849</b>	<b>\$1,057,003</b>	<b>\$21,443,287</b>	<b>\$(103,384)</b>	<b>\$23,375,757</b>
Cumulative effects of changes in accounting policies				(17,491)		(17,491)
Restated balance		978,849	1,057,003	21,425,796	(103,384)	23,358,265
Cash dividends (Note 13)				(987,556)		(987,556)
Net income attributable to owners of parent				4,099,325		4,099,325
Change of scope of consolidation				(4,559)		(4,559)
Purchase of treasury stock					(48,807)	(48,807)
Disposal of treasury stock			911		23,481	24,392
Others			203			203
Net changes of items other than stockholders' equity						
<b>Balance at March 31, 2022</b>	<b>416,662</b>	<b>\$978,849</b>	<b>\$1,058,118</b>	<b>\$24,533,005</b>	<b>\$(128,709)</b>	<b>\$26,441,264</b>

	Thousands of U.S. dollars (Note 3)							
	Accumulated Other Comprehensive Income					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	Total			
<b>Balance at April 1, 2021</b>	<b>\$205,139</b>	<b>\$(22,160)</b>	<b>\$(480,482)</b>	<b>\$(19,748)</b>	<b>\$(317,252)</b>	<b>\$16,511</b>	<b>\$585,846</b>	<b>\$23,660,863</b>
Cumulative effects of changes in accounting policies								(17,491)
Restated balance	205,139	(22,160)	(480,482)	(19,748)	(317,252)	16,511	585,846	23,643,371
Cash dividends (Note 13)								(987,556)
Net income attributable to owners of parent								4,099,325
Change of scope of consolidation								(4,559)
Purchase of treasury stock								(48,807)
Disposal of treasury stock								24,392
Others								203
Net changes of items other than stockholders' equity	14,872	1,373	1,098,306	28,353	1,142,905	5,895	233,090	1,381,892
<b>Balance at March 31, 2022</b>	<b>\$220,012</b>	<b>\$(20,786)</b>	<b>\$617,823</b>	<b>\$8,604</b>	<b>\$825,653</b>	<b>\$22,407</b>	<b>\$818,937</b>	<b>\$28,108,262</b>

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, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2022	2022
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and non-controlling interests	¥402,145	¥696,137	\$5,706,045
Depreciation and amortization	143,807	168,788	1,383,511
Loss on impairment of fixed assets	936	1,086	8,908
Increase (decrease) in net defined benefit liability	2,860	3,041	24,928
(Gain) loss on sales of investments in securities	(1,687)	(295)	(2,425)
(Gain) loss on revaluation of investments in securities	520	180	1,483
Increase (decrease) in allowance for doubtful accounts	(1,185)	3,195	26,190
Interest and dividend income	(12,434)	(4,929)	(40,401)
Interest expenses	728	983	8,059
Exchange (gain) loss	(4,909)	(8,842)	(72,482)
Equity in (earnings) losses of affiliates	(5,364)	(7,140)	(58,524)
Loss on disaster	2,955	-	-
(Increase) decrease in notes and accounts receivable	(22,016)	(119,162)	(976,743)
(Increase) decrease in inventories	(3,898)	(69,097)	(566,369)
(Increase) decrease in long-term advance payment	4,109	(3,951)	(32,391)
Increase (decrease) in notes and accounts payable	(9,584)	47,436	388,827
Other, net	(8,859)	(12,622)	(103,465)
Subtotal	488,123	694,808	5,695,150
Proceeds from interest and dividends	15,026	6,984	57,250
Payments of interest	(571)	(816)	(6,694)
Payments of income taxes	(101,402)	(147,448)	(1,208,591)
<b>Net cash provided by operating activities</b>	<b>401,176</b>	<b>553,528</b>	<b>4,537,115</b>
<b>Cash Flows from Investing Activities:</b>			
(Increase) decrease in time deposits	(12,334)	(40,783)	(334,292)
Purchases of securities	(87,500)	(63,000)	(516,393)
Proceeds from redemption of securities	82,354	56,598	463,918
Purchases of property, plant and equipment	(236,195)	(195,775)	(1,604,715)
Proceeds from sales of property, plant and equipment	3,836	2,345	19,227
Purchases of intangible fixed assets	(1,177)	(1,781)	(14,601)
Purchases of investments in securities	(3,616)	(8,099)	(66,388)
Proceeds from sales and redemption of investments in securities	3,471	389	3,192
Payments of loans	(70)	(9)	(77)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	-	(3,552)	(29,115)
Proceeds from collection of loans	461	260	2,132
Other, net	51	(315)	(2,584)
<b>Net cash provided by (used for) investing activities</b>	<b>(250,719)</b>	<b>(253,723)</b>	<b>(2,079,699)</b>
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in short-term borrowings	701	(1,100)	(9,019)
Proceeds from long-term debt	4,578	4,677	38,340
Repayments of long-term debt	(796)	(3,041)	(24,931)
Purchases of treasury stock	(10,657)	(5,954)	(48,807)
Proceeds from sales of treasury stock	5,150	2,634	21,592
Cash dividends paid	(91,420)	(120,481)	(987,556)
Cash dividends paid to non-controlling interests	(1,249)	(2,453)	(20,109)
Other, net	2,569	3,215	26,354
<b>Net cash used for financing activities</b>	<b>(91,123)</b>	<b>(122,504)</b>	<b>(1,004,137)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(2,861)</b>	<b>29,963</b>	<b>245,599</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>56,471</b>	<b>207,263</b>	<b>1,698,878</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>745,125</b>	<b>801,596</b>	<b>6,570,467</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	<b>-</b>	<b>64</b>	<b>532</b>
<b>Cash and Cash Equivalents at End of Year, inclusion of subsidiaries in consolidation (Note 24)</b>	<b>¥801,596</b>	<b>¥1,008,925</b>	<b>\$8,269,878</b>

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, 2021 and 2022

## 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 99 majority-owned subsidiaries (collectively, the "Companies"), of which the principal firms are listed on page 44 with their respective fiscal year-ends.

Moreover, from the fiscal year ended March 31, 2022, due to the acquisition of shares and other reasons, 2 companies were included in the scope of consolidation.

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, 2021 and 2022.

**(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. Of available-for-sale securities, securities excluding stocks and other securities with no market value 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. Stocks and other securities with no market value 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 cost 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) Standards for recognizing revenues and expenses**

The Company and its certain consolidated subsidiaries operate in four segments, Infrastructure Materials, Electronics Materials, Functional Materials, and Processing & Specialized Services. The main business is the manufacture and sale of specific products that are delivered based on the sales contracts with customers. Revenue is recognized when control of the product is transferred to the customer and the performance obligation is satisfied, such as shipping and acceptance.

However, for domestic sales of products, the Company and its domestic consolidated subsidiaries recognize revenue at the time of shipment if the period from the time of shipment to the time when control of the product is transferred to the customer is normal.

If the Company and its certain consolidated subsidiaries act as an agent in a transaction, revenue is recognized at net amounts.



**(14) Research and development costs**

Research and development costs are charged to cost as incurred.

**(15) 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.

**(16) Dividends**

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

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

### 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 ¥122 to US\$1, the approximate effective rate of exchange on March 31, 2022. 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 ¥122 to US\$1 or at any other rate.

## 4. CONTRACT ASSETS AND RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

The individual amounts of contract assets and receivables arising from contracts with customers included in "Notes, accounts receivable-trade and contract assets" are shown in Note 25.

## 5. 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

Since various assumptions and factors are reflected in estimating the fair value of financial instruments, different assumptions and factors could result in different fair values. In addition, the contract amount of derivative transactions in Note 7 does not itself indicate the market risk associated with the derivative transactions.

### (2) Fair value of financial instruments

As of March 31, 2021 and 2022, the book value, fair value and the difference between the two are as follows:

	Millions of yen		
	2021		
	Book value	Fair value	Difference
Assets:			
(1) Securities and investments in securities(*2)			
i) Held-to-maturity debt securities	¥20,055	¥20,150	¥95
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	28,986	38,460	9,474
iii) Available-for-sale securities	350,082	350,082	—
(2) Long-term loans	430	440	9
<b>Total</b>	<b>¥399,554</b>	<b>¥409,113</b>	<b>¥9,578</b>
Liabilities:			
(3) Long-term debt	¥15,986	¥15,760	¥(226)
<b>Total</b>	<b>¥15,986</b>	<b>¥15,760</b>	<b>¥(226)</b>
(4) Derivative transactions(*3):			
Hedge accounting not applied	¥(6,268)	¥(6,268)	¥—
Hedge accounting applied	(3,706)	(3,706)	—
<b>Total</b>	<b>¥(9,974)</b>	<b>¥(9,974)</b>	<b>¥—</b>

1. Related to "Cash and time deposits", "Notes and accounts receivable-trade", "Short-term loans", "Notes and accounts payable-trade", "Short-term borrowings", "Accounts payable-other", "Accrued expenses", and "Accrued income taxes", since they are cash or the fair value is close to the book value because it is settled in a short period of time, the description about them is omitted.

\*2. Securities excluding stocks and other securities with no market value are not included in "(1) Securities and investments in securities". The book value of them is as follows.

Section	Book value
Non-listed stocks, etc.	¥37,448 million

\*3. Net receivables and payables arising from derivative transactions are shown in net amount, and items that result in net payables in total are displayed with parentheses.

	Millions of yen			Thousands of U.S. dollars		
	2022			2022		
	Book value	Fair value	Difference	Book value	Fair value	Difference
<b>Assets:</b>						
(1) Securities and investments in securities(*2)						
i) Held-to-maturity debt securities	¥26,946	¥26,893	¥(53)	\$220,871	\$220,435	\$(436)
ii) Investments in and advances to subsidiaries and affiliates	30,871	36,135	5,263	253,044	296,189	43,145
iii) Available-for-sale securities	385,279	385,279	—	3,158,027	3,158,027	—
(2) Long-term loans	240	252	11	1,968	2,066	97
<b>Total</b>	<b>¥443,337</b>	<b>¥448,559</b>	<b>¥5,222</b>	<b>\$3,633,911</b>	<b>\$3,676,718</b>	<b>\$42,806</b>
<b>Liabilities:</b>						
(3) Long-term debt	¥16,940	¥16,477	¥(462)	\$138,858	\$135,063	\$(3,794)
<b>Total</b>	<b>¥16,940</b>	<b>¥16,477</b>	<b>¥(462)</b>	<b>\$138,858</b>	<b>\$135,063</b>	<b>\$(3,794)</b>
(4) Derivative transactions(*3):						
Hedge accounting not applied	¥(3,899)	¥(3,899)	¥—	\$(31,961)	\$(31,961)	\$—
Hedge accounting applied	(3,759)	(3,759)	—	(30,814)	(30,814)	—
<b>Total</b>	<b>¥(7,658)</b>	<b>¥(7,658)</b>	<b>¥—</b>	<b>\$(62,775)</b>	<b>\$(62,775)</b>	<b>\$—</b>

1. Related to "Cash and time deposits", "Notes and accounts receivable-trade", "Short-term loans", "Notes and accounts payable-trade", "Short-term borrowings", "Accounts payable-other", "Accrued expenses", and "Accrued income taxes", since they are cash or the fair value is close to the book value because it is settled in a short period of time, the description about them is omitted.

\*2. Securities excluding stocks and other securities with no market value are not included in "(1) Securities and investments in securities". The book value of them is as follows.

Section	Book value
Non-listed stocks, etc.	¥41,546 million (\$340,542 thousand)

\*3. Net receivables and payables arising from derivative transactions are shown in net amount, and items that result in net payables in total are displayed with parentheses.

Notes:

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

Description	Millions of yen			
	2021			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Time deposits	¥866,832	¥—	¥—	¥—
Notes and accounts receivable-trade	343,896	—	—	—
Securities and investments in securities	286,039	8,015	1,000	—
Long-term loans	—	352	69	9
<b>Total</b>	<b>¥1,496,768</b>	<b>¥8,367</b>	<b>¥1,069</b>	<b>¥9</b>

Description	Millions of yen				Thousands of U.S. dollars			
	2022				2022			
	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	¥1,112,639	¥—	¥—	¥—	\$9,119,999	\$—	\$—	\$—
Notes and accounts receivable-trade	473,444	—	—	—	3,880,690	—	—	—
Securities and investments in securities	323,305	9,062	2,078	—	2,650,043	74,280	17,039	—
Long-term loans	—	211	19	8	—	1,737	160	70
<b>Total</b>	<b>¥1,909,389</b>	<b>¥9,274</b>	<b>¥2,098</b>	<b>¥8</b>	<b>\$15,650,732</b>	<b>\$76,017</b>	<b>\$17,200</b>	<b>\$70</b>

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

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
<b>Total</b>	<b>¥12,981</b>	<b>¥7,982</b>	<b>¥5,030</b>	<b>¥5,067</b>	<b>¥746</b>	<b>¥2,647</b>

Description	Millions of yen					
	2022					
	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	¥7,508	¥—	¥—	¥—	¥—	¥—
Long-term debt	5,952	1,449	4,048	4,366	3,101	3,974
Lease obligations	1,585	2,312	714	529	454	2,958
<b>Total</b>	<b>¥15,046</b>	<b>¥3,761</b>	<b>¥4,763</b>	<b>¥4,896</b>	<b>¥3,555</b>	<b>¥6,932</b>

Description	Thousands of U.S. dollars					
	2022					
	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	\$61,549	\$—	\$—	\$—	\$—	\$—
Long-term debt	48,794	11,879	33,188	35,793	25,421	32,575
Lease obligations	12,992	18,955	5,857	4,338	3,725	24,250
<b>Total</b>	<b>\$123,335</b>	<b>\$30,834</b>	<b>\$39,046</b>	<b>\$40,132</b>	<b>\$29,147</b>	<b>\$56,826</b>

### (3) Fair value of financial instruments by level

Fair value of financial instruments is classified into the following three levels according to the observability and importance of the input related to the calculation of the fair value.

Level 1 of fair value: is calculated based on the market price of the asset or liability formed in the active market of the inputs related to the calculation of the observable fair value.

Level 2 of fair value: is calculated using the inputs related to the calculation of the fair value other than the level 1 input of the inputs related to the calculation of the observable fair value.

Level 3 of fair value: is calculated using inputs related to the calculation of unobservable fair value.

Using multiple inputs that have a significant impact on the fair value calculation, the fair value is classified to the lowest priority level in the fair value calculation among the levels to which each inputs belong.

As of March 31, 2022, financial instruments recorded on the consolidated balance sheet at fair value are as follows:

	Millions of yen				Thousands of U.S. dollars			
	2022				2022			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
<b>Assets:</b>								
Securities and investments in securities								
Available-for-sale securities								
Stocks	¥73,764	¥—	¥—	¥73,764	\$604,630	\$—	\$—	\$604,630
<b>Total</b>	¥73,764	¥—	¥—	¥73,764	\$604,630	\$—	\$—	\$604,630
Derivative transactions:								
Securities and investments in securities	¥—	¥(3,899)	¥—	¥(3,899)	\$—	\$(31,961)	\$—	\$(31,961)
Securities and investments in securities	—	(3,759)	—	(3,759)	—	(30,814)	—	(30,814)
<b>Total</b>	¥—	¥(7,658)	¥—	¥(7,658)	\$—	\$(62,775)	\$—	\$(62,775)

As of March 31, 2022, financial instruments other than those listed on the consolidated balance sheet at fair value are as follows:

	Millions of yen				Thousands of U.S. dollars			
	2022				2022			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
<b>Assets:</b>								
Securities and investments in securities								
Held-to-maturity debt securities	¥—	¥26,893	¥—	¥26,893	\$—	\$220,435	\$—	\$220,435
Investments in and advances to unconsolidated subsidiaries and affiliates	36,135	—	—	36,135	296,189	—	—	296,189
Available-for-sale securities								
Quoted bonds, negotiable certificates of deposit, money trusts and trust beneficiary rights	—	311,514	—	311,514	—	2,553,396	—	2,553,396
Long-term loans	—	252	—	252	—	2,066	—	2,066
<b>Total</b>	¥36,135	¥338,659	¥—	¥374,794	\$296,189	\$2,775,898	\$—	\$3,072,087
<b>Liabilities:</b>								
Long-term debt	¥—	¥16,477	¥—	¥16,477	\$—	\$135,063	\$—	\$135,063
<b>Total</b>	¥—	¥16,477	¥—	¥16,477	\$—	\$135,063	\$—	\$135,063

\*Explanation of the valuation technique used to calculate the fair value and the inputs related to the calculation of the fair value

Securities and investments in securities

Held-to-maturity debt securities

The fair value of bonds is based on prices provided by counterparty financial institutions with which is classified as Level 2.

Investments in and advances to unconsolidated subsidiaries and affiliate

The fair value of listed stocks is evaluated using the market price. Listed stocks are traded in active markets, so the fair value is classified as Level 1.

Available-for-sale securities

The fair value of listed stocks is evaluated using the market price. Listed stocks are traded in active markets, so the fair value is classified as Level 1. The fair value of quoted bonds is based on the price provided by counterparty financial institutions, and the fair value is classified as Level 2. Negotiable certificates of deposit, money trusts and trust beneficiary rights are settled within a short time, and the fair value and book value are nearly equal. Thus, the book value is listed as the fair value in the table above which is classified as Level 2.

Long-term loans

The fair value of long-term loans is calculated based on future cash flow discounted at an appropriate rate, such as mid-term and long-term interest rates with credit spreads, for all loans grouped by a certain period of time and credit rating under the credit exposure management. The fair value is classified as Level 2.

Long-term debt

The fair value of long-term debt is calculated based on a present value of principal and interest, discounted at an expected rate for new borrowings with the same terms. The fair value is classified as Level 2.

Derivative transactions

The fair value of derivative transactions is based on the price offered by counterparty financial institutions and classified as Level 2.

## 6. SECURITIES

### (1) Held-to-maturity debt securities

Description	Millions of yen						Thousands of U.S. dollars		
	2021			2022			2022		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value	¥3,431	¥3,532	¥100	¥2,654	¥2,692	¥38	\$21,760	\$22,072	\$312
Securities with fair value that does not exceed book value	16,624	16,618	(5)	24,291	24,200	(91)	199,110	198,362	(748)
<b>Total</b>	<b>¥20,055</b>	<b>¥20,150</b>	<b>¥95</b>	<b>¥26,946</b>	<b>¥26,893</b>	<b>¥(53)</b>	<b>\$220,871</b>	<b>\$220,435</b>	<b>\$(436)</b>

### (2) Available-for-sale securities

Description	Millions of yen						Thousands of U.S. dollars		
	2021			2022			2022		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value that exceeds acquisition cost	¥61,343	¥23,646	¥37,697	¥71,775	¥32,324	¥39,451	\$588,322	\$264,952	\$323,369
Securities with book value that does not exceed acquisition cost	288,738	290,206	(1,467)	313,504	314,179	(675)	2,569,704	2,575,240	(5,535)
<b>Total</b>	<b>¥350,082</b>	<b>¥313,852</b>	<b>¥36,229</b>	<b>¥385,279</b>	<b>¥346,503</b>	<b>¥38,775</b>	<b>\$3,158,027</b>	<b>\$2,840,192</b>	<b>\$317,834</b>

Notes: 1. Non-listed equity securities, with a book value of ¥3,259 million, and other investment securities with a book value of ¥695 million, as of March 31, 2021, whose fair value is extremely difficult to estimate are excluded from the above.

2. Non-listed equity securities, with a book value of ¥3,607 million (\$29,569 thousand), and other investment securities with a book value of ¥406 million (\$3,331 thousand), as of March 31, 2022, whose market price is unavailable are excluded from the above.

## 7. DERIVATIVE TRANSACTIONS

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

Currency related:

As of March 31, 2021

Description	Millions of yen			
	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)
EUR	3,634	—	(90)	(90)
Other	2,366	—	(6)	(6)
Purchase contracts:				
USD	2,057	—	(27)	(27)
Other	3,800	—	(33)	(33)
<b>Total</b>	<b>¥139,652</b>	<b>¥1,566</b>	<b>¥(6,268)</b>	<b>¥(6,268)</b>

As of March 31, 2022

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	¥78,295	¥—	¥(3,680)	¥(3,680)	\$641,769	\$—	\$(30,165)	\$(30,165)
EUR	3,508	—	(122)	(122)	28,754	—	(1,000)	(1,000)
Other	3,044	—	9	9	24,958	—	80	80
Purchase contracts:								
USD	666	—	9	9	5,460	—	76	76
Other	3,495	—	(13)	(13)	28,654	—	(108)	(108)
Currency swap								
Pay TWD and Receive JPY	1,953	1,953	(103)	(103)	16,012	16,012	(844)	(844)
<b>Total</b>	<b>¥90,964</b>	<b>¥1,953</b>	<b>¥(3,899)</b>	<b>¥(3,899)</b>	<b>\$745,610</b>	<b>\$16,012</b>	<b>\$(31,961)</b>	<b>\$(31,961)</b>

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

1) Currency related:

As of March 31, 2021

			Millions of yen		
Hedge accounting method	Transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts: Sales contracts USD	Accounts receivable-trade	¥69,662	¥—	¥(2,833)
	Purchase contracts EUR	Accounts payable-trade	4,795	—	415
<b>Total</b>			¥74,457	¥—	¥(2,417)

As of March 31, 2022

			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts: Sales contracts USD	Accounts receivable-trade	¥97,018	¥—	¥(5,007)	\$795,234	\$—	\$(41,042)
	Purchase contracts EUR	Accounts payable-trade	5,081	—	346	41,651	—	2,838
<b>Total</b>			¥102,100	¥—	¥(4,660)	\$836,886	\$—	\$(38,204)

2) Commodity related:

As of March 31, 2021

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

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

As of March 31, 2022

			Millions of yen		
Hedge accounting method	Transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Commodity swap contracts	Accounts payable-trade	¥6,073	¥1,484	¥901
<b>Total</b>			¥6,073	¥1,484	¥901

			Thousands of U.S. dollars		
Hedge accounting method	Transaction	Hedged items	Contract amounts	Contract amounts over one year	Fair value
Deferral hedge accounting	Commodity swap contracts	Accounts payable-trade	\$49,786	\$12,168	\$7,390
<b>Total</b>			\$49,786	\$12,168	\$7,390



## 8. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2021 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Investments in securities (Stocks)	¥62,520	¥67,944	\$556,921
Other (Investments in capital)	3,751	3,761	30,835

## 9. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2021 and 2022 was ¥2,277,104 million and ¥2,500,352 million (\$20,494,696 thousand), respectively.

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

Short-term borrowings, long-term debt and lease obligations as of March 31, 2021 and 2022 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2021	2022	2022
Short-term borrowings	1.1%	—	¥8,233	¥7,508	\$61,549
Current portion of long-term debt	1.0%	—	3,534	5,952	48,794
Current portion of lease obligations	3.7%	—	1,212	1,585	12,992
Long-term debt, excluding current portion	1.8%	January 2023- June 2031	15,986	16,940	138,856
Lease obligations, excluding current portion	3.6%	January 2023- December 2040	5,488	6,969	57,127
<b>Total</b>			<b>¥34,456</b>	<b>¥38,957</b>	<b>\$319,322</b>

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2022.

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, 2022 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
2024	¥1,449	¥2,312	\$11,879	\$18,955
2025	4,048	714	33,188	5,857
2026	4,336	529	35,793	4,338
2027	3,101	454	25,421	3,725

## 11. 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, 2021 and 2022 is as follows:

### 1. Defined Benefit Pension Plans

#### (1) Changes in Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Beginning balance of benefit obligations	¥72,693	¥81,425	\$667,419
Service costs	4,243	4,623	37,895
Interest costs	1,234	1,143	9,369
Actuarial differences arising during the year	7,765	(2,606)	(21,368)
Retirement benefits paid	(2,248)	(3,041)	(24,933)
Other*	(2,263)	4,890	40,085
Ending balance of benefit obligations	¥81,425	¥86,433	\$708,468

\*Mainly foreign currency translation adjustments

#### (2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Beginning balance of pension assets	¥40,239	¥43,751	\$358,615
Expected return on pension assets	2,601	1,668	13,672
Actuarial differences arising during the year	2,585	1,582	12,968
Contributions made by the Company and consolidated subsidiaries	645	450	3,693
Retirement benefits paid	(1,723)	(2,299)	(18,849)
Other*	(596)	3,732	30,590
Ending balance of pension assets	¥43,751	¥48,884	\$400,690

\*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
	2021	2022	2022
Funded benefit obligations	¥73,050	¥77,665	\$636,603
Pension assets	(43,751)	(48,884)	(400,690)
Net	29,298	28,781	235,912
Unfunded benefit obligations	8,375	8,767	71,865
Net amount of liability and asset on Consolidated Balance Sheets	¥37,674	¥37,548	\$307,777

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net defined benefit liability	¥41,456	¥41,469	\$339,912
Net defined benefit asset	(3,782)	(3,920)	(32,134)
Net amount of liability and asset on Consolidated Balance Sheets	¥37,674	¥37,548	\$307,777

**(4) Retirement Benefit Expenses**

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Service costs	¥4,243	¥4,623	\$37,895
Interest costs	1,234	1,143	9,369
Expected return on pension assets	(2,601)	(1,668)	(13,672)
Amortization of actuarial differences	1,407	323	2,649
Amortization of prior service cost	(47)	(49)	(407)
Retirement benefit expenses for defined benefit pension plans	¥4,236	¥4,371	\$35,835

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

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Actuarial differences	¥(3,776)	¥4,548	\$37,280
Prior service cost	40	(86)	(706)
<b>Total</b>	¥(3,735)	¥4,461	\$36,573

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

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Unrecognized actuarial differences	¥(7,177)	¥(2,628)	\$(21,548)
Unrecognized prior service cost	352	265	2,179
<b>Total</b>	¥(6,825)	¥(2,363)	\$(19,369)

**(7) Pension Assets****Breakdown**

	2021	2022
Bonds	41%	40%
Stocks	26%	28%
Other	33%	32%
<b>Total</b>	100%	100%

(Note) 12% and 14% of total pension assets amount were in a "Retirement Benefit Trust" for lump-sum severance payment plans as of March 31, 2021 and 2022, 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**

	2021	2022
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
	2021	2022	2022
	¥2,578	¥2,699	\$22,122

## 12. COMMITMENT AND CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors of housing loans for employees and of loans by unconsolidated subsidiaries, affiliates and others as of March 31, 2021 and 2022 in the aggregate amounts of ¥16 million and ¥3 million (\$28 thousand), respectively.

## 13. 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, 2021 and 2022 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, 2021							
Ordinary general meeting of shareholders held on June 26, 2020	Common stock	March 31, 2020	June 29, 2020	¥45,744		¥110.00	
Board of directors meeting held on October 27, 2020	Common stock	September 30, 2020	November 19, 2020	45,676		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, 2022							
Ordinary general meeting of shareholders held on June 29, 2021	Common stock	March 31, 2021	June 30, 2021	¥58,176	¥140.00	\$476,857	\$1.14
Board of directors meeting held on October 27, 2021	Common stock	September 30, 2021	November 19, 2021	62,305	150.00	510,698	1.22

(2) Cash dividends for the fiscal years ended March 31, 2021 and 2022 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, 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	

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, 2022								
Ordinary general meeting of shareholders held on June 29, 2022	Common stock	Retained earnings	March 31, 2022	June 30, 2022	¥103,861	¥250.00	\$851,321	\$2.04

## 14. SHARE SUBSCRIPTION RIGHTS

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
			Beginning balance	Increase	Decrease	Ending balance	Balance at March 31, 2021
The Company	Stock options	Common stock	1,207,600	339,000	500,800	1,045,800	¥1,699
Consolidated subsidiary	—	—	—	—	—	—	314
<b>Total</b>							¥2,014

Fiscal year ended March 31, 2022

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, 2022	Balance at March 31, 2022
The Company	Stock options	Common stock	1,045,800	334,500	229,100	1,151,200	¥2,392	\$19,607
Consolidated subsidiary	—	—	—	—	—	—	341	2,799
<b>Total</b>							¥2,733	\$22,407

## 15. STOCK OPTIONS

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

The stock option expenses for the fiscal years ended March 31, 2021 and 2022 of ¥679 million and ¥1,034 million (\$8,477 thousand), respectively, were included in selling, general and administrative expenses in the consolidated statements of income. Gains on forfeited stock options for the fiscal year ended March 31, 2021 was ¥8 million. There were no gains on forfeited stock options for the fiscal year ended March 31, 2022.

Stock options as of March 31, 2022 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	2021	
Grantees	16 directors of the Company 105 employees of the Company	6 directors of the Company (excluding outside directors) 10 corporate officers of the Company (excluding those concurrently serving as directors) 107 employees of the Company	
Number of stock options granted by category of stock (in shares)	339,000 shares of common stock	334,500 shares of common stock	
Grant date	September 2, 2020	September 1, 2021	
Vesting conditions	None	None	
Exercise period	September 3, 2021 through March 31, 2025	September 2, 2023 through August 31, 2028	

Movement in stock options during the fiscal year ended March 31, 2022 was as follows:

	Number of shares				
	2017	2018	2019	2020	2021
Beginning balance (Stock options outstanding)	27,500	213,400	465,900	339,000	—
Granted	—	—	—	—	334,500
Exercised	23,500	65,800	115,700	24,100	—
Forfeited	—	—	—	—	—
Ending balance (Stock options outstanding)	4,000	147,600	350,200	314,900	334,500
	Yen				
Exercise price	10,000	¥10,721	¥11,906	¥13,123	¥18,503
Weighted average market value per share at the exercise date	18,849	19,241	19,881	20,106	—
Fair value per share at the grant date	1,479	1,202	1,552	2,004	3,092
	U.S. dollars				
Exercise price	\$81.96	\$87.87	\$97.59	\$107.56	\$151.66
Weighted average market value per share at the exercise date	154.50	157.71	162.95	164.80	—
Fair value per share at the grant date	12.12	9.85	12.72	16.42	25.34

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

Stock options granted on September 1, 2021

Expected volatility	25.46
Expected remaining life	4.50 years
Expected dividend	300 yen
Risk-free interest rate	(0.128)%

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

The stock option expenses for the fiscal years ended March 31, 2021 and 2022 of ¥88 million and ¥91 million (\$747 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, 2021 and 2022 were ¥1 million and ¥27 million (\$225 thousand), respectively.

Stock options as of March 31, 2022 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	10 Directors 18 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	2021
Grantees	9 Directors 23 Employees 6 Directors of its subsidiaries	9 Directors 25 Employees 5 Directors of its subsidiaries	3 Directors 8 Corporate officers 20 Employees 4 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	475,000 shares of common stock
Grant date	September 11, 2019	September 10, 2020	September 10, 2021
Vesting conditions	None	None	None
Exercise period	September 12, 2021 through March 31, 2025	September 11, 2022 through March 31, 2026	September 11, 2023 through March 31, 2027

Movement in stock options during the fiscal year ended March 31, 2022 was as follows:

	Number of shares					
	2016	2017	2018	2019	2020	2021
Beginning balance (Stock options outstanding)	245,000	447,000	482,000	456,000	461,000	—
Granted	—	—	—	—	—	475,000
Exercised	153,800	5,000	15,000	128,000	—	—
Forfeited	70,000	70,000	70,000	—	—	—
Ending balance (Stock options outstanding)	21,200	372,000	397,000	327,200	461,000	475,000
	Yen					
Exercise price	¥702	¥1,056	¥962	¥759	¥910	¥1,051
Weighted average market value per share at the exercise date	1,080.11	1,143.00	1,051.67	1,065.39	—	—
Fair value per share at the grant date	100	172	121	147	191	192
	U.S. dollars					
Exercise price	\$5.75	\$8.65	\$7.88	\$6.22	\$7.45	\$8.61
Weighted average market value per share at the exercise date	8.85	9.36	8.62	8.73	—	—
Fair value per share at the grant date	0.81	1.40	0.99	1.20	1.56	1.57

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, 2021

Expected volatility	29.36
Expected remaining life	3.78 years
Expected dividend	20 yen
Risk-free interest rate	(0.117)%

## 16. REVENUE FROM CONTRACTS WITH CUSTOMERS

Net sales for the fiscal year ended March 31, 2022 is not presented separately for revenues arising from contracts with customers and other revenues. The amounts of revenues arising from contracts with customers are shown in Note 25.

## 17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2021 and 2022 mainly consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Shipping expenses	¥44,468	¥66,925	\$548,568
Salaries and allowances	29,345	33,192	272,068
Provision for bonuses for employees	1,225	1,309	10,734
Provision for bonuses for directors	706	609	4,992
Retirement benefit expenses	444	493	4,045
Depreciation and amortization	2,665	3,014	24,705
Provision of allowance for doubtful accounts	(513)	(11)	(92)

## 18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the fiscal years ended March 31, 2021 and 2022 were ¥51,264 million and ¥62,455 million (\$511,930 thousand), respectively.

## 19. GAIN ON SALES OF PROPERTY, PLANT AND EQUIPMENT

Gain on sales of property, plant and equipment for the fiscal year ended March 31, 2022 was due to the sales of lands and buildings.

## 20. LOSS ON DISASTER

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

## 21. LEASE TRANSACTIONS

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2021 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
<b>Future Lease Payments:</b>			
Within one year	¥2,030	¥2,721	\$22,304
Over one year	4,445	10,346	84,803
	¥6,476	¥13,067	\$107,108



## 22. 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, 2021 and 2022.

The tax effects of significant temporary differences and tax loss carry forwards that resulted in deferred tax assets or liabilities at March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
<b>Deferred Tax Assets:</b>			
Depreciation and amortization	¥13,588	¥15,430	\$126,480
Net defined benefit liability	11,949	11,997	98,337
Unrealized profit	8,939	10,569	86,639
Maintenance costs	4,972	5,384	44,131
Accrued bonuses	3,733	4,285	35,126
Unsettled accounts receivable and payable	3,393	3,551	29,111
Accrued enterprise taxes	2,565	2,967	24,322
Allowance for doubtful accounts	1,843	2,693	22,078
Tax loss carryforwards	1,351	810	6,644
Unrealized gains/losses on available-for-sale securities	263	250	2,052
Other	27,286	28,504	233,646
Valuation allowance	(4,947)	(3,808)	(31,217)
<b>Total</b>	<b>¥74,938</b>	<b>¥82,637</b>	<b>\$677,353</b>
<b>Deferred Tax Liabilities:</b>			
Depreciation and amortization	¥48,031	¥59,534	\$487,986
Unrealized gains/losses on available-for-sale securities	11,291	12,036	98,659
Reserve for special depreciation	67	36	300
Other	12,133	12,268	100,562
<b>Total</b>	<b>¥71,524</b>	<b>¥83,876</b>	<b>\$687,509</b>
<b>Net deferred tax assets (liabilities)</b>	<b>¥3,414</b>	<b>¥(1,239)</b>	<b>\$(10,156)</b>

A reconciliation of the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2021 and 2022 is as follows:

	2021	2022
Statutory tax rate	30.5 %	30.5 %
Rate difference from foreign subsidiaries	(3.2)	(4.8)
Equity in (earnings) losses of affiliates	(0.4)	(0.3)
Dividend and other non-taxable income	(1.8)	(1.3)
Elimination of intercompany dividend income	1.9	1.4
Tax deduction for research expenses and other	(1.6)	(0.7)
Entertainment and other non-deductible expenses	0.1	0.0
Other, net	0.2	(0.1)
<b>Effective tax rate</b>	<b>25.6</b>	<b>24.6</b>

## 23. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal years ended March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Unrealized gains (losses) on available-for-sale securities			
Amount arising during the year	¥22,900	¥2,560	\$20,988
Reclassification adjustment for gains and losses included in profit or loss	(1,627)	18	149
Unrealized gains (losses) on available-for-sale securities before tax	21,272	2,578	21,137
Tax effect	(6,485)	(757)	(6,208)
Unrealized gains (losses) on available-for-sale securities	14,787	1,821	14,929
Deferred gains (losses) on hedges			
Amount arising during the year	393	(4,284)	(35,115)
Reclassification adjustment for gains and losses included in profit or loss	(565)	4,233	34,701
Deferred gains (losses) on hedges before tax	(171)	(50)	(413)
Tax effect	264	222	1,821
Deferred gains (losses) on hedges	93	171	1,408
Foreign currency translation adjustments			
Amount arising during the year	(50,887)	137,079	1,123,599
Remeasurements of defined benefit plans			
Amount arising during the year	(5,095)	4,188	34,331
Reclassification adjustment for gains and losses included in profit or loss	1,359	273	2,242
Remeasurements of defined benefit plans before tax	(3,735)	4,461	36,573
Tax effect	2,725	(996)	(8,164)
Remeasurements of defined benefit plans	(1,010)	3,465	28,409
Share of other comprehensive income (loss) of affiliates accounted for using the equity method			
Amount arising during the year	65	665	5,455
Reclassification adjustment for gains and losses included in profit or loss	5	2	22
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	70	668	5,478
<b>Total other comprehensive income (loss)</b>	¥(36,946)	¥143,206	\$1,173,824

## 24. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents on the consolidated statements of cash flows consist of cash in hand, deposits that can be withdrawn 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, 2021 and 2022 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash and time deposits	¥866,882	¥1,112,775	\$9,121,113
Securities	286,039	323,305	2,650,043
Time deposits (maturities over three months)	(226,285)	(289,850)	(2,375,825)
Securities (maturities over three months)	(125,039)	(137,305)	(1,125,453)
<b>Cash and cash equivalents</b>	¥801,596	¥1,008,925	\$8,269,878

## 25. REVENUE RECOGNITION

### 1. Disaggregation of revenue from contracts with customers

	Millions of yen				
	2022				
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total
Sales to outside customers					
Domestic production	¥128,000	¥571,550	¥244,738	¥81,578	¥1,025,867
Overseas production	729,189	137,429	150,888	31,053	1,048,560
<b>Total</b>	<b>¥857,189</b>	<b>¥708,979</b>	<b>¥395,626</b>	<b>¥112,632</b>	<b>¥2,074,428</b>

	Thousands of U.S. dollars				
	2022				
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total
Sales to outside customers					
Domestic production	\$1,049,184	\$4,684,836	\$2,006,052	\$668,679	\$8,408,752
Overseas production	5,976,962	1,126,473	1,236,788	254,534	8,594,759
<b>Total</b>	<b>\$7,026,146</b>	<b>\$5,811,309</b>	<b>\$3,242,840</b>	<b>\$923,213</b>	<b>\$17,003,511</b>

Note: Net sales in the consolidated statements of income do not include revenues other than revenues from contracts with customers.

### 2. Information for a basis to understand the revenue from contracts with customers

The Company and its consolidated subsidiaries operate in four segments, Infrastructure Materials, Electronics Materials, Functional Materials, and Processing & Specialized Services. The main business is the manufacture and sale of specific products that are delivered based on the sales contracts with customers. In the sale of products, the Group is considered to be acting as an agent when its performance obligation is to arrange for the goods to be provided by another party. The consideration in sales contracts for certain products includes discounts and other variable consideration based on the volume of transactions over a certain period of time.

Agency transactions are calculated based on the net amount of consideration received from the customer less the amount paid to such other party. Revenue is calculated by deducting discounts from the consideration promised in the contract with the customer.

Estimates of discounts, etc. are calculated using the most likely amount method based on historical experience and other factors. The amount of variable consideration is included in the transaction price only to the extent that it is probable that, when the uncertainty regarding the amount of variable consideration is resolved after the fact, there will not be a significant reduction in the revenue recorded by the time the uncertainty is resolved.

The consideration in the sales contract of the product is collected within about one year from the time when the control over the product is transferred to the customer and does not include a significant financing component. Revenue is recognized when control of the product is transferred to the customer and the performance obligation is satisfied, such as shipping and acceptance. However, for domestic sales of products, the Company and its domestic consolidated subsidiaries recognize revenue at the time of shipment if the period from the time of shipment to the time when control of the product is transferred to the customer is normal.

**3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current fiscal year and are expected to be recognized in the following fiscal year**

**(1) Balance of contract assets and contract liabilities**

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Receivables from contracts with customers (Beginning balance)	¥336,571	\$2,758,780
Receivables from contracts with customers (Ending balance)	473,444	3,880,690
Contract assets (Beginning balance)	1	13
Contract assets (Ending balance)	68	564
Contract liabilities (Beginning balance)	3,567	29,244
Contract liabilities (Ending balance)	3,755	30,785

Contract assets are recognized primarily for consideration for construction contracts in progress, which arise from contracts with customers upon customer acceptance.

The consideration is transferred to receivables and billed to the customer upon acceptance by the customer and is subsequently received.

Contract liabilities are primarily advances received from customers prior to revenue recognition for product sales contracts where revenue is recognized upon delivery of the product. Contract liabilities are reversed upon revenue recognition.

The amount of contract liabilities outstanding as of the beginning of the current fiscal year that were recognized as revenue in the current fiscal year was not material. In addition, the amount of revenue recognized in the current fiscal year primarily from sales contracts where products were delivered prior to the previous fiscal year, due to subsequent changes in transaction prices, was not material. There were no material changes in the balances of contract assets and contract liabilities.

**(2) Transaction price allocated to residual performance obligations**

The Company and its consolidated subsidiaries have not recognized any significant contracts, because there are no significant contracts with an initially expected contract period of more than one year, and the information regarding the remaining performance obligations is omitted.

## 26. SEGMENT AND RELATED INFORMATION

### 1. Segment information

#### (1) Overview of reportable segments

The Company changed the reportable segments from the fiscal year ended March 31, 2022. With this change, the goals of our businesses will become clearer, and the report will be more suitable for the markets and industries in which our business operates and makes its contribution. For each business unit that makes up the segment, separate financial information is available. Such information will be regularly examined by the decision-making body for the allocation of management resources and performance evaluation.

The main products and services that belong to each segment of the new reportable segments are as follows:

Segment	Main products and services	Business description
Infrastructure Materials	Polyvinyl chloride resin, Caustic soda, Methanol, Chloromethanes, Poval	Supporting infrastructure and daily life by lessening environmental impact.
Electronics Materials	Semiconductor silicon, Rare earth magnets, Semiconductor encapsulating materials, LED packaging materials, Photoresists, Photomask blanks, Synthetic quartz products	Providing material technology for better application for electronics, optics, and magnetics everywhere.
Functional Materials	Silicones, Cellulose derivatives, Silicon metal, Synthetic pheromones, Vinyl chloride-vinyl acetate copolymer, Liquid fluoroelastomers, Pellicles	Providing a wide range of better functions that are required.
Processing & Specialized Services	Processed plastics, Export of technologies and plants, Export and import of products, Engineering	Responding to problem solving by applying materials and utilizing 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.

(Application of Accounting Standard for Revenue Recognition, etc.)

As stated in Note 29, the "Accounting Standard for Revenue Recognition" and other standards are applied

from the beginning of the fiscal year ended March 31, 2022, and the accounting method for revenue recognition has been changed, and the calculation method for segment income has been changed as well.

The impact of the application of these accounting standards on sales and income (loss) of each reportable segment for in the fiscal year ended March 31, 2022 is immaterial.

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

	Millions of yen						Figures in consolidated financial statements
	2021						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total	Adjustment <sup>(1)</sup>	
Sales to outside customers	¥485,867	¥595,676	¥314,272	¥101,090	¥1,496,906	¥—	¥1,496,906
Intersegment sales	5,454	4,115	13,425	125,325	148,321	(148,321)	¥—
<b>Total</b>	<b>¥491,321</b>	<b>¥599,792</b>	<b>¥327,697</b>	<b>¥226,416</b>	<b>¥1,645,228</b>	<b>¥(148,321)</b>	<b>¥1,496,906</b>
Segment income (Operating income)	¥99,601	¥206,085	¥70,711	¥16,320	¥392,718	¥(504)	¥392,213
Depreciation and amortization	¥44,384	¥64,544	¥30,174	¥4,556	¥143,660	¥(508)	¥143,152
Amortization of goodwill	¥—	¥—	¥654	¥—	¥654	¥—	¥654
Increase in property, plant and equipment and intangible assets	¥103,492	¥88,477	¥34,281	¥4,130	¥230,382	¥(1,580)	¥228,801

Millions of yen							
2022							
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total	Adjustment <sup>(1)</sup>	Figures in consolidated financial statements
Sales to outside customers	¥857,189	¥708,979	¥395,626	¥112,632	¥2,074,428	¥—	¥2,074,428
Intersegment sales	4,357	7,120	14,395	103,802	129,676	(129,676)	¥—
<b>Total</b>	<b>¥861,547</b>	<b>¥716,099</b>	<b>¥410,022</b>	<b>¥216,434</b>	<b>¥2,204,104</b>	<b>¥(129,676)</b>	<b>¥2,074,428</b>
Segment income (Operating income)	¥317,792	¥244,778	¥94,774	¥20,910	¥678,255	¥(1,933)	¥676,322
Depreciation and amortization	¥51,347	¥80,792	¥32,114	¥4,422	¥168,677	¥(722)	¥167,955
Amortization of goodwill	¥—	¥—	¥679	153	¥833	¥—	¥833
Increase in property, plant and equipment and intangible assets	¥62,194	¥106,543	¥37,380	¥9,424	¥215,543	¥(1,625)	¥213,918

Thousands of U.S. dollars							
2022							
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total	Adjustment <sup>(1)</sup>	Figures in consolidated financial statements
Sales to outside customers	\$7,026,146	\$5,811,309	\$3,242,840	\$923,213	\$17,003,511	\$—	\$17,003,511
Intersegment sales	35,721	58,361	117,995	850,840	1,062,919	(1,062,919)	\$—
<b>Total</b>	<b>\$7,061,868</b>	<b>\$5,869,671</b>	<b>\$3,360,836</b>	<b>\$1,774,054</b>	<b>\$18,066,430</b>	<b>\$(1,062,919)</b>	<b>\$17,003,511</b>
Segment income (Operating income)	\$2,604,854	\$2,006,380	\$776,843	\$171,394	\$5,559,474	\$(15,850)	\$5,543,623
Depreciation and amortization	\$420,884	\$662,236	\$263,229	\$36,249	\$1,382,600	\$(5,918)	\$1,376,681
Amortization of goodwill	\$—	\$—	\$5,568	\$1,261	\$6,829	\$—	\$6,829
Increase in property, plant and equipment and intangible assets	\$509,792	\$873,310	\$306,397	\$77,247	\$1,766,748	\$(13,321)	\$1,753,427

Notes: [1] Elimination of intersegment transactions.

[2] The information for the fiscal year ended March 31, 2021 was prepared based on the changed reportable segments.

## 2. Related information

### Geographic information

#### (1) Net sales

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net sales			
Japan	¥389,723	¥467,313	\$3,830,440
U.S.	343,290	613,075	5,025,208
China	151,766	179,958	1,475,067
Asia / Oceania (excluding China)	360,403	450,318	3,691,131
Europe	152,698	206,702	1,694,284
Other	99,023	157,060	1,287,378
<b>Total</b>	<b>¥1,496,906</b>	<b>¥2,074,428</b>	<b>\$17,003,511</b>

#### (2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Property, plant and equipment			
Japan	¥377,457	¥414,994	\$3,401,593
U.S.	584,142	654,395	5,363,898
Other	203,548	220,775	1,809,637
<b>Total</b>	<b>¥1,165,149</b>	<b>¥1,290,165</b>	<b>\$10,575,129</b>

### 3. Loss on impairment of fixed assets

Millions of yen						
2021						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	¥—	¥79	¥223	¥633	¥—	¥936

Millions of yen						
2022						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	¥—	¥279	¥—	¥807	¥—	¥1,086

Thousands of U.S. dollars						
2022						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	\$—	\$2,288	\$—	\$6,619	\$—	\$8,908

### 4. Amortization of goodwill and unamortized balance

Millions of yen						
2021						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥—	¥654	¥—	¥—	¥654
Unamortized balance	¥—	¥—	¥3,183	¥—	¥—	¥3,183

Millions of yen						
2022						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥—	¥679	¥153	¥—	¥833
Unamortized balance	¥—	¥—	¥2,530	¥1,668	¥—	¥4,199

Thousands of U.S. dollars						
2022						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	\$—	\$—	\$5,568	\$1,261	\$—	\$6,829
Unamortized balance	\$—	\$—	\$20,744	\$13,675	\$—	\$34,420



## 27. RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties during the fiscal year ended March 31, 2021 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	Chihiro Kanagawa	Direct Ownership 0.07%	Representative Director-Chairman	Exercise of stock options (Note)	¥300 (30)	—	—	
Director	Fumio Akiya	Direct Ownership 0.00%	Representative Director-Vice-Chairman	Exercise of stock options (Note)	¥394 (38)	—	—	
Director	Yasuhiko Saitoh	Direct Ownership 0.01%	Representative Director-President	Exercise of stock options (Note)	¥370 (35.6)	—	—	
Director	Susumu Ueno	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)	¥115 (11)	—	—	
Director	Toshiya Akimoto	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥125 (12)	—	—	
Director	Fumio Arai	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥75 (7)	—	—	
Director	Yukihiko Matsui	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥25 (2.5)	—	—	
Director	Masaki Miyajima	Direct Ownership 0.01%	Managing Director	Exercise of stock options (Note)	¥125 (12)	—	—	
Director	Kenji Ikegami	Direct Ownership 0.00%	Managing Director	Exercise of stock options (Note)	¥63 (6)	—	—	
Director	Shunzo Mori	Direct Ownership 0.00%	Director - Adviser	Exercise of stock options (Note)	¥147 (13)	—	—	
Director	Toshiyuki Kasahara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥40 (4)	—	—	
Director	Kazumasa Maruyama	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥94 (9)	—	—	
Director	Toshio Shiobara	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥125 (11.5)	—	—	
Director	Yoshimitsu Takahashi	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥120 (10.5)	—	—	
Director	Kai Yasuoka	Direct Ownership 0.00%	Director	Exercise of stock options (Note)	¥30 (3)	—	—	
Director	Hidenori Onezawa	Direct Ownership 0.00%	Full-Time Audit & Supervisory Board Member	Exercise of stock options (Note)	¥80 (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.

Transactions between the Company and related parties during the fiscal year ended March 31, 2022 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 or other Officer	Chihiro Kanagawa	Direct Ownership 0.07%	Representative Director-Chairman	Exercise of stock options (Note)	¥60 (6)	—	—	\$491 (6)
Director or other Officer	Fumio Akiya	Direct Ownership 0.00%	Representative Director-Vice-Chairman	Exercise of stock options (Note)	¥297 (25)	—	—	\$2,439 (25)
Director or other Officer	Yasuhiko Saitoh	Direct Ownership 0.01%	Representative Director-President	Exercise of stock options (Note)	¥29 (2.5)	—	—	\$243 (2.5)
Director or other Officer	Masahiko Todoroki	Direct Ownership 0.00%	Director, Senior Managing Corporate Officer	Exercise of stock options (Note)	¥21 (2)	—	—	\$175 (2)
Director or other Officer	Yukihiro Matsui	Direct Ownership 0.00%	Managing Corporate Officer	Exercise of stock options (Note)	¥64 (6)	—	—	\$527 (6)
Director or other Officer	Masaki Miyajima	Direct Ownership 0.01%	Managing Corporate Officer	Exercise of stock options (Note)	¥59 (5)	—	—	\$487 (5)
Director or other Officer	Kenji Ikegami	Direct Ownership 0.00%	Managing Corporate Officer	Exercise of stock options (Note)	¥58 (5)	—	—	\$478 (5)
Director or other Officer	Toshiyuki Kasahara	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥42 (4)	—	—	\$351 (4)
Director or other Officer	Kazumasa Maruyama	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥83 (7)	—	—	\$683 (7)
Director or other Officer	Toshio Shiobara	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥34 (3)	—	—	\$283 (3)
Director or other Officer	Kai Yasuoka	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥21 (2)	—	—	\$175 (2)
Director or other Officer	Hidenori Onezawa	Direct Ownership 0.00%	Full-Time Audit & Supervisory Board Member	Exercise of stock options (Note)	¥13 (1.3)	—	—	\$114 (1.3)

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

## 28. SUPPLEMENTARY INFORMATION

(Unapplied Accounting Standards)

- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, issued by the Accounting Standards Board of Japan ("ASBJ") on June 17, 2021)

### (1) Overview

The revised "Implementation Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31) was issued on June 17, 2021. This is a revision of "Implementation Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31), which had been expected to take approximately one year after being issued on July 4, 2019 because a certain amount of time would be required for discussions with related parties, etc. regarding the "calculation of the fair value of investment trusts" and because consideration is also required for the note of the fair value of "investments in partnerships, in which the net amount of equity interest is recorded in the balance sheet."

### (2) Date of application

To be applied from the beginning of the fiscal year ending March 31, 2023

### (3) Effect of application

The application of this accounting standard has no impact on the consolidated financial statements.

## 29. CHANGES IN ACCOUNTING POLICIES

(Application of "Accounting Standard for Revenue Recognition," etc. )

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards are applied from the beginning of the fiscal year ended March 31, 2022. The Company and its domestic consolidated subsidiaries now recognize revenue in the amount expected to be received in exchange for promised goods or services at the time when control of the goods or services is transferred to customers.

For transactions in which the role in providing goods to customers corresponds to agents, the Company and its domestic consolidated subsidiaries had previously recognized revenue in a gross amount of consideration received from customers, but they have changed to a process to recognize revenue in a net amount after deducting the payment amount from a gross amount of consideration received from customers.

Based on the transitional treatment outlined in Article 84 of the "Accounting Standard for Revenue Recognition," the cumulative effect of retroactively applying the new accounting policy to periods prior to the beginning of the fiscal year ended March 31, 2022 is reflected in the balance of retained earnings at the beginning of the fiscal year ended March 31, 2022. As a result, the balance of retained earnings at the beginning of the fiscal year ended March 31, 2022 decreased by ¥2,133 million.

The impact of the application of these accounting standards on net sales, gross profit, operating income, ordinary income, income before income taxes and non-controlling interests, and per share information is immaterial.

Due to the application of these accounting standards, "Notes and accounts receivable-trade" in "Current Assets" in the consolidated balance sheets has been reclassified as "Notes, accounts receivable-trade and contract assets" from the beginning of the fiscal year ended March 31, 2022.

In accordance with the transitional treatment of 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year. Furthermore, in accordance with the transitional treatment of 89-3 of the Accounting Standard for Revenue Recognition, the notes to "Revenue Recognition" for the previous fiscal year are omitted in this report.

(Application of "Accounting Standard for Fair Value Measurement," etc. )

The "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and other standards are applied from the beginning of the fiscal year ended March 31, 2022. Based on the transitional treatment prescribed in Paragraph 19 of the "Accounting Standard for Fair Value Measurement" and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company and its domestic consolidated subsidiaries have decided to apply the new accounting policies set forth by the "Accounting Standard for Fair Value Measurement" into the future. These changes had no impact on the consolidated financial statements.

In "Financial instruments", the information related to the breakdown of fair value of financial instruments for each level is noted.

However, in accordance with the transitional treatment prescribed in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), information for the previous fiscal year is omitted in this report.

## 30. CHANGES IN THE METHOD OF PRESENTATION

(Consolidated Statement of Income)

In the fiscal year ended March 31, 2021, "Foreign exchange gain" had been included in "Other, net" under "Other Income (Expenses)." However, as it has exceeded one-tenth of the total amount of other income, it is therefore presented as a separate item from the fiscal year ended March 31, 2022.

Furthermore, "Interest income" and "Dividend income" had been presented as separate items under "Other Income (Expenses)." However, as they have decreased to less than one-tenth of the total amount of other income, they are therefore included in "Other, net" from the fiscal year ended March 31, 2022.

In order to reflect these changes in presentation method, the Company has reclassified the consolidated financial statements for the previous fiscal year. As a result, ¥5,016 million that had been presented in "Interest income", ¥7,417 million that had been presented in "Dividend income" and ¥3,517 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, 2021 have been reclassified into "Foreign exchange gain" of ¥137 million and "Other, net" of ¥15,814 million.

In the fiscal year ended March 31, 2021, "Provision of allowance for doubtful accounts" had been included in "Other, net" under "Other Income (Expenses)." However, as it 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, 2022.

Furthermore, "Interest expenses" had been presented as a separate item under "Other Income (Expenses)." However, as it 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, 2022.

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, ¥(728) million that had been presented in "Interest expenses" and ¥(5,745) 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, 2021 have been reclassified into "Provision of allowance for doubtful accounts" of ¥(-) million and "Other, net" of ¥(6,474) million.

## 31. 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, 2022, the balance of property, plant and equipment was ¥1,290,165 million, accounting for 32% 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	Shinano Electric Refining Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31	Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28
Shin-Etsu Handotai America, Inc.*	100.0	December 31	Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu PVC B.V.*	100.0	December 31	Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Shin-Etsu Polymer America, Inc.*	100.0	December 31
S.E.H. Malaysia Sdn. Bhd.*	100.0	December 31	Naoetsu Sangyo Limited	100.0	March 31
Shin-Etsu Handotai Taiwan Co., Ltd.*	70.0	December 31	Shinken Total Plant Co., Ltd.	100.0	February 28
Shin-Etsu Polymer Co., Ltd.	53.5	March 31	Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG*	100.0	December 31	Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Astech Co., Ltd.	99.7	March 31	Shin-Etsu Magnet Co., Ltd.	100.0	March 31
Shin-Etsu Silicones (Thailand) Ltd.*	100.0	December 31	Shin-Etsu Polymer India Pvt. Ltd.*	100.0	December 31
Shin-Etsu Handotai Europe, Ltd.*	100.0	December 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
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31	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
S-E, Inc.*	100.0	December 31	Shin-Etsu Polymer Hungary Kft.*	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.*	100.0	December 31	Shin-Etsu Polymer (Thailand) Ltd.*	100.0	December 31
Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd.*	100.0	December 31	Dongguan Shin-Etsu Polymer Co., Ltd.*	100.0	December 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28	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	Simcoa Operations Pty. Ltd.*	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.*	100.0	December 31	SE Tylose USA, Inc.*	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.*	100.0	December 31	K-Bin, Inc.*	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28	Shin-Etsu Silicone (Nantong) Co., Ltd.*	100.0	December 31
Shin-Etsu MicroSi, Inc.*	100.0	December 31	Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.*	75.0	December 31
Shin-Etsu Silicone Taiwan Co., Ltd.*	93.3	December 31	Kashima Chlorine & Alkali Co., Ltd.	79.0	March 31
Shin-Etsu Silicones of America, Inc.*	100.0	December 31	Kashima Vinyl Chloride Monomer Co., Ltd.	70.6	March 31
Shin-Etsu Silicones Europe B.V.*	100.0	December 31	Shin-Etsu New Materials (Thailand) Limited*	100.0	December 31
Shin-Etsu Opto Electronic Co., Ltd.*	80.0	December 31	Shin-Etsu Magnetic Materials Vietnam Co., Ltd.*	100.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.*	100.0	December 31	Shin-Etsu Electronics Materials Taiwan Co., Ltd.*	100.0	December 31
Shin-Etsu Polymer Europe B.V.*	100.0	December 31	Shin-Etsu YOFC (Hubei) Optical Preform Co., Ltd.*	51.0	December 31
Shin-Etsu International Europe B.V.*	100.0	December 31	Shin-Etsu Polymer Vietnam Co., Ltd.*	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31	Shin-Etsu Electronics (Malaysia) Sdn.Bhd.*	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28	Shin-Etsu (Hong Kong) Co., Ltd.*	100.0	December 31
Skyward Information System Co., Ltd.	100.0	March 31	Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd.*	100.0	December 31

\*Overseas subsidiary

25 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, 2022, 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, 2022, 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 performance obligations for revenue recognition

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 four business segments.</p> <p>As described in Note 2, "Summary of significant accounting policies, (13) Standard for recognizing revenues and expenses" in the Notes to the consolidated financial statements, although revenue is ordinarily recognized when the Company satisfies its performance obligations by transferring products to customers based on sales contracts, the exact point in time when performance obligations are satisfied by the Company varies 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.</p> <p>Accordingly, regarding revenue recognition at the Company, there is a possibility that errors could be made in determining when the corresponding performance obligations are satisfied.</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 is recognized at the point in time when performance obligations are satisfied based on sales contracts, among others:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• We assessed whether the point in time when performance obligations of sales transactions are satisfied is determined on the basis of the contract terms by inspecting related source documents such as written contracts with major customers.</li> <li>• We tested the dates on which sales were recorded and the amounts thereof regarding sales transactions selected in consideration of their quantitative and qualitative materiality and randomly selected sales transactions by agreeing to related source documents such as bill of lading and acceptance reports.</li> <li>• For sales transactions occurring just before and after the fiscal year end, in order to evaluate the timing of revenue recognition, we randomly selected specific samples as deemed necessary after performing a daily analysis and tested the selected sales transactions by agreeing to related source documents such as bill of lading and acceptance report.</li> <li>• 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.</li> </ul>

## **Other Information**

The other information comprises the information included in the Annual Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **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 consolidated 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, 2022 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

July 26, 2022

/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