

Shin-Etsu Chemical Co., Ltd.

Annual Report 2023

Financial Section

Ten-Year Summary

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the fiscal years ended March 31, 2014 through 2023

	Millions of yen			
	2014	2015	2016	2017
For the year:				
Net sales	¥1,165,819	¥1,255,543	¥1,279,807	¥1,237,405
Cost of sales	873,879	940,399	930,019	868,404
Selling, general and administrative expenses	118,130	129,814	141,262	130,383
Operating income	173,809	185,329	208,525	238,617
Ordinary income	180,605	198,025	220,005	242,133
Net income attributable to owners of parent	113,617	128,606	148,840	175,912
Capital expenditures	83,155	109,903	134,753	145,647
R&D costs	43,546	47,165	53,165	49,020
Depreciation and amortization	91,445	96,918	100,466	93,087
At year-end:				
Total assets	¥2,198,912	¥2,452,306	¥2,510,085	¥2,655,636
Working capital (Current assets - Current liabilities)	981,667	1,100,999	1,170,679	1,232,607
Common stock	119,419	119,419	119,419	119,419
Net assets	1,822,135	2,012,711	2,080,465	2,190,082
Interest-bearing debt	15,638	14,328	13,470	14,642
Per share (Yen and U.S. dollars):				
Net income per share—basic	¥53.44	¥60.41	¥69.89	¥82.57
Net income per share—fully diluted (Note 2)	53.41	60.40	69.88	82.57
Cash dividends	100.00	100.00	110.00	120.00
Payout ratio (%)	37.4	33.1	31.5	29.1
Net assets	833.06	920.56	952.30	1,000.43
General:				
Operating income to net sales ratio (%)	14.9	14.8	16.3	19.3
Net income attributable to owners of parent to net sales ratio (%)	9.7	10.2	11.6	14.2
ROIC (%)	9.4	9.9	11.4	14.0
ROE (%)	6.8	6.9	7.5	8.5
ROA (%)	8.8	8.5	8.9	9.4
Equity ratio (%)	80.6	79.9	80.8	80.3
PBR (times)	1.4	1.7	1.2	1.9
PER (times)	22.1	26.0	16.7	23.4
Number of employees	17,892	18,276	18,407	19,206
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 ¥134 = US\$1, the approximate rate of exchange on March 31, 2023.

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., from the fiscal year ended March 31, 2022 are those after application of said Accounting Standard, etc.

3. The Company enacted a five-for-one stock split of its common stock with an effective date of April 1, 2023. "Number of shares issued" shows the number of shares before the stock split, while "Net income per share-basic", "Net income per share-fully diluted" and "Net assets per share" are calculated based on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 31, 2014, based on "Accounting Standard for Earnings Per Share".

4. As the record date was prior to the stock split date (April 1, 2023), "Cash dividends per share" is based on the shares before the stock split.

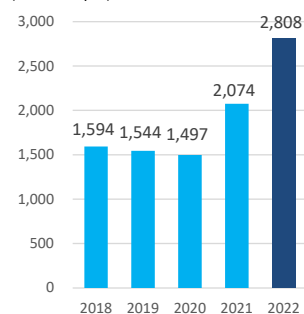
Millions of yen						Thousands of U.S. dollars (Note 3)
2018	2019	2020	2021	2022	2023	2023
¥1,441,432	¥1,594,036	¥1,543,525	¥1,496,906	¥2,074,428	¥2,808,824	\$20,961,378
963,008	1,039,979	987,782	953,203	1,206,425	1,594,717	11,900,873
141,601	150,352	149,702	151,489	191,680	215,905	1,611,232
336,822	403,705	406,041	392,213	676,322	998,202	7,449,272
340,308	415,311	418,242	405,101	694,434	1,020,211	7,613,517
266,235	309,125	314,027	293,732	500,117	708,238	5,285,359
176,283	240,618	265,018	228,801	213,918	318,046	2,373,482
51,768	56,436	48,536	51,264	62,455	67,201	501,500
112,016	137,570	131,172	143,807	168,788	213,632	1,594,275
¥2,903,137	¥3,038,717	¥3,230,485	¥3,380,615	¥4,053,412	¥4,730,394	\$35,301,451
1,324,495	1,358,614	1,446,724	1,551,662	1,960,216	2,355,713	17,579,954
119,419	119,419	119,419	119,419	119,419	119,419	891,191
2,413,025	2,532,556	2,723,141	2,886,625	3,429,208	4,026,209	30,046,336
15,814	14,920	30,383	34,456	38,957	47,097	351,474
¥124.86	¥145.20	¥151.03	¥141.35	¥240.76	¥347.84	\$2.596
124.82	145.18	151.00	141.25	240.55	347.61	2.594
140.00	200.00	220.00	250.00	400.00	500.00	3.731
22.4	27.5	29.1	35.4	33.2	28.7	28.7
1,102.40	1,183.09	1,275.59	1,353.94	1,601.45	1,918.37	14.316
23.4	25.3	26.3	26.2	32.6	35.5	35.5
18.5	19.4	20.3	19.6	24.1	25.2	25.2
18.2	21.5	19.4	17.2	27.2	33.6	33.6
11.9	12.8	12.3	10.7	16.3	19.7	19.7
12.2	14.0	13.3	12.3	18.7	23.2	23.2
81.0	81.1	82.1	83.2	82.1	81.8	81.8
2.0	1.6	1.7	2.7	2.3	2.2	2.2
17.6	12.8	14.2	26.3	15.6	12.3	12.3
20,155	21,735	22,783	24,069	24,954	25,717	25,717
432,106	427,606	416,662	416,662	416,662	404,824	404,824

Management's Discussion and Analysis

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

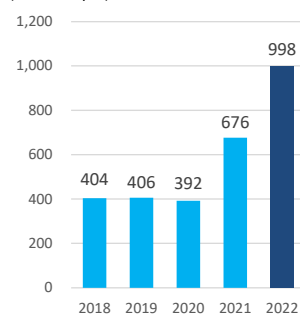
Net Sales

(Billions of yen)



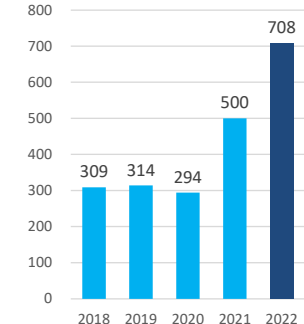
Operating Income

(Billions of yen)



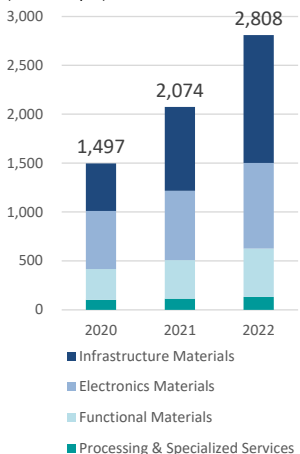
Net Income Attributable to Owners of Parent

(Billions of yen)



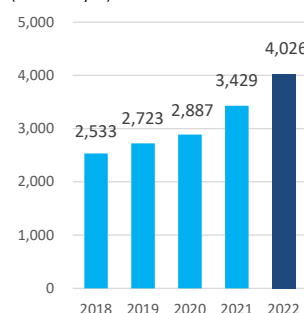
Net Sales by Business Segment

(Billions of yen)



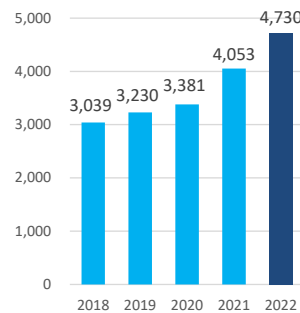
Total Net Assets

(Billions of yen)



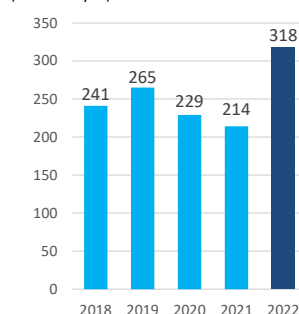
Total Assets

(Billions of yen)



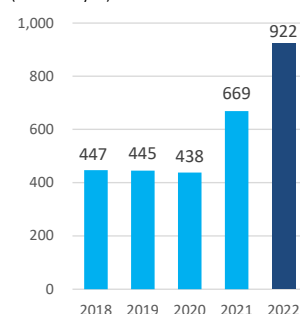
Capital Expenditures

(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"), 133 subsidiaries, and 12 affiliates (as of March 31, 2023). 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 provides engineering and various other services. The Group conducts business activities including manufacturing and sales through mutual cooperation among all Group companies.

Consolidated Operating Performance

During the FY2022 (from April 1, 2022, to March 31, 2023), the economic situation took a very different turn in the first and second half of the fiscal year. While the monetary policies aimed at calming inflation put downward pressure on the economy, the situation developed into a banking crisis in Europe and the United States in March. It has also been pointed out that the banking crisis in Europe and the United States could harm the economy through restrictive lending. Geopolitical issues also continue to cause turbulence in the global economy. Although the economies of emerging countries, mainly in Asia, are being revived, the headwinds facing the industries and companies are, if anything, likely to become stronger, not weaker. Under these circumstances, we will maintain close communication with our customers, expedite the development of products that are valuable to them, and continue to provide a reliable supply of products of unwavering quality. We will skillfully overcome headwinds and focus on growing our business performance. We will continue capital investments and R&D activities so as to meet the needs and demands of customers and markets in a timely manner.

As a result, net sales in FY2022 increased 35.4% (¥734,396 million) compared to the previous fiscal year, amounting to ¥2,808,824 million. Operating income was ¥998,202 million, an increase of 47.6% (¥321,880 million) from the previous fiscal year. Ordinary income increased 46.9% (¥325,777 million) to ¥1,020,211 million over the previous fiscal year. Net income attributable to owners of parent was ¥708,238 million, an increase of 41.6% (¥208,121 million) compared with the previous fiscal year.

Business Segment Overview

Infrastructure Materials

As for PVC, the signs of a global economic recession appeared in the market but bottomed out at the end of 2022. On the other hand, the caustic soda market remained firm but began to weaken after the turn of the year.

Consequently, segment sales rose 52.6% (¥450,910 million) compared to the previous fiscal year, amounting to ¥1,308,099 million. Segment operating income was ¥541,344 million, up 70.3% (¥223,552 million) year on year.

Electronics Materials

The semiconductor market had entered an adjustment phase since the autumn of last year, and a similar situation remained at the end of the year, but the semiconductor materials as a whole were supported by the performance in the first half of the year. Rare earth magnets were also affected by the semiconductor shortages in customer production and the adjustments in data center investment, but the shipments to other markets made up for it.

Consequently, segment sales increased to ¥875,646 million, up 23.5% (¥166,667 million) compared to the previous fiscal year. Segment operating income amounted to ¥301,400 million, up 23.1% (¥56,622 million) year on year.

Functional Materials

Although some product groups were affected by the inventory adjustment and slowdown in the market, we made up for it with the shipment of highly functional product groups and worked to maintain profitability.

Segment sales consequently increased to ¥493,386 million, up 24.7% (¥97,760 million) compared to the previous fiscal year. Segment operating income was ¥130,608 million, grew 37.8% (¥35,834 million) year on year.

Processing & Specialized Services

The sales of semiconductor wafer-related containers were strong mainly for 300 mm wafer use, and the sales of input devices for automobiles increased. The sales of PVC-related products such as PVC wrapping films for food packaging and construction materials increased due to the permeation of revised prices.

As a result, segment sales increased to ¥131,691 million, up 16.9% (¥19,059 million) compared to the previous fiscal year. Segment operating income amounted to ¥26,365 million, up 26.1% (¥5,455 million) year on year.

Analysis of Financial Position

At the end of FY2022 (March 31, 2023), total assets increased by ¥676,982 million compared with that at the end of the previous fiscal year to ¥4,730,394 million. It was mainly due to increases in cash and time deposits, inventories, and property, plant and equipment.

Total liabilities increased by ¥79,981 million from that at the end of the previous fiscal year to ¥704,185 million.

Total net assets amounted to ¥4,026,209 million. This was mainly due to net income attributable to owners of parent that reached a record of ¥708,238 million and foreign currency translation adjustments that increased by ¥222,480 million due to yen depreciation, offset by ¥206,788 million for purchases of treasury stock (¥195,497 million was cancelled in FY2022) and a cash dividend payment of ¥195,365 million.

As a result, the equity ratio came to 81.8%, down 0.3 percentage points from its previous level of 82.1%, and net assets per share, calculated after the stock split in accordance with "Accounting Standard for Earnings Per Share," increased by ¥316.92 compared with the previous fiscal year, to ¥1,918.37.

Return on invested capital (ROIC) was 33.6%, up 6.4 percentage points from its previous level of 27.2%, and return on equity (ROE) was 19.7%, rose 3.4 percentage points from its previous level of 16.3%. The full-year dividend per share was increased by ¥100 compared to the previous fiscal year, to ¥500 per share.

Cash Flows

The balance of cash and cash equivalents (net cash) at the end of FY2022 increased by 23.6% (¥238,419 million) compared with the end of the previous fiscal year to ¥1,247,344 million.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥788,013 million, an increase of ¥234,485 million from the previous fiscal year. This consisted mainly of ¥1,020,211 million in income before income taxes and non-controlling interests, ¥213,632 million in depreciation and amortization, and ¥210,959 million for increase in inventories, ¥266,937 million for the payment of income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities decreased by ¥67,235 million from the previous fiscal year to ¥186,488 million. This was mainly due to ¥295,517 million for purchases of property, plant and equipment and ¥111,394 million for net increase in proceeds from redemption of securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased by ¥301,055 million from the previous fiscal year to ¥423,559 million. This was mainly due to ¥206,788 million for purchases of treasury stock and a cash dividend payment of ¥195,365 million.

As of March 31, 2023, cash, deposits, and available-for-sale securities (current assets) including negotiable deposits totaled ¥1,600,648 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.

Capital Expenditures

During the fiscal year under review, capital expenditures totaled ¥318,046 million, across the Infrastructure Materials, Electronics Materials, Functional Materials, and Processing & Specialized Services.

Capital expenditures in the Infrastructure Materials came to ¥100,009 million. The key expenditure was a new integrated PVC production facility at Shintech, Inc.

In the Electronics Materials, capital expenditures totaled ¥168,858 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 rare earth magnets manufacturing equipment at the Company.

In the Functional Materials, capital expenditures amounted to ¥39,859 million. Major expenditures went toward the enhancement and streamlining of silicone product manufacturing facilities.

Capital expenditures in the Processing & Specialized Services amounted to ¥11,460 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 ¥275 per share, which was ¥50 higher than the interim dividend of ¥225 per share at the end of the second quarter. As a result, the annual dividend was ¥500 per share, ¥100 up from the previous fiscal year, which was an increase for eight 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 FY2022 (March 31, 2023) 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 81% of the Group's consolidated net sales in FY2022, 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, Impact of Infection

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.

In addition, the Group has implemented thorough health and safety measures at our business sites. However, if the spread of infectious diseases or other outbreaks that may occur in the future, or if countries decide to suppress economic activities in response to such outbreaks, causing a significant decrease in demand for our products or damage to our supply chain, including our business sites, 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.

Consolidated Balance Sheet

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
As of March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2022	2023	2023
ASSETS			
Current Assets:			
Cash and time deposits (Note 23)	¥1,112,775	¥1,449,617	\$10,818,037
Notes, accounts receivable-trade and contract assets (Note 4)	473,513	472,557	3,526,548
Securities (Notes 6 and 23)	323,305	151,031	1,127,097
Merchandise and finished goods	201,478	305,303	2,278,382
Work in process	15,422	21,381	159,564
Raw materials and supplies	236,759	361,793	2,699,948
Other	80,539	107,535	802,505
Less: Allowance for doubtful accounts	(5,818)	(5,695)	(42,501)
Total current assets	2,437,975	2,863,524	21,369,582
Fixed Assets:			
Property, Plant and Equipment (Note 9)			
Buildings and structures, net	246,154	282,756	2,110,120
Machinery and equipment, net	788,524	877,848	6,551,109
Land	94,043	103,350	771,274
Construction in progress	140,162	224,247	1,673,488
Other, net	21,280	29,986	223,782
Total property, plant and equipment	1,290,165	1,518,190	11,329,776
Intangible Assets	10,535	10,351	77,249
Investments and Other Assets:			
Investments in securities (Notes 6 and 8)	161,338	171,110	1,276,940
Net defined benefit asset (Note 11)	3,920	3,942	29,419
Deferred tax assets (Note 21)	65,594	75,028	559,913
Other (Note 8)	89,703	94,299	703,726
Less: Allowance for doubtful accounts	(5,822)	(6,051)	(45,157)
Total investments and other assets	314,734	338,328	2,524,842
Total fixed assets	1,615,436	1,866,870	13,931,868
Total Assets	¥4,053,412	¥4,730,394	\$35,301,451

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2022	2023	2023
LIABILITIES			
Current Liabilities:			
Notes and accounts payable-trade	¥177,682	¥185,006	\$1,380,642
Short-term borrowings (Note 10)	13,461	10,998	82,077
Accounts payable-other	81,350	92,187	687,964
Accrued expenses	69,197	85,567	638,564
Accrued income taxes	73,756	65,459	488,506
Accrued bonuses for employees	4,147	4,496	33,555
Accrued bonuses for directors	599	445	3,328
Other	57,562	63,648	474,989
Total current liabilities	477,759	507,810	3,789,628
Long-Term Liabilities:			
Long-term debt (Note 10)	16,940	18,812	140,394
Deferred tax liabilities (Note 21)	66,833	112,246	837,661
Net defined benefit liability (Note 11)	41,469	36,933	275,626
Other	21,201	28,381	211,803
Total long-term liabilities	146,444	196,375	1,465,486
Total Liabilities	624,204	704,185	5,255,115
Commitment and Contingent Liabilities (Note 12)			
NET ASSETS			
Stockholders' Equity:			
Common stock:	119,419	119,419	891,191
Authorized: 1,720,000,000 shares			
Issued: 416,662,793 shares and 404,824,593 shares as of March 31, 2022 and 2023, respectively			
Additional paid-in capital	129,090	128,320	957,614
Retained earnings (Note 13)	2,993,026	3,310,205	24,703,023
Less: Treasury stock, at cost	(15,702)	(22,891)	(170,835)
1,218,008 shares and 1,315,240 shares as of March 31, 2022 and 2023, respectively			
Total stockholders' equity	3,225,834	3,535,053	26,380,993
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities	26,841	31,511	235,160
Deferred gains (losses) on hedges	(2,535)	(410)	(3,061)
Foreign currency translation adjustments	75,374	297,855	2,222,798
Remeasurements of defined benefit plans	1,049	6,385	47,650
Total accumulated other comprehensive income	100,729	335,341	2,502,548
Share Subscription Rights (Note 14)	2,733	3,814	28,466
Non-controlling Interests in Consolidated Subsidiaries	99,910	151,999	1,134,327
Total net assets	3,429,208	4,026,209	30,046,336
Total Liabilities and Net Assets	¥4,053,412	¥4,730,394	\$35,301,451

Note: Although the Company enacted a five-for-one stock split of its common stock with an effective date of April 1, 2023, the number of "Authorized shares", "Issued shares" and "Treasury stock" before the split is shown.

The number of shares after the split is as follows.

Authorized shares: 8,000,000,000 shares

Issued shares as of March 31, 2023: 2,024,122,965 shares

Treasury stock as of March 31, 2023: 6,576,200 shares

Consolidated Statement of Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2022	2023	2023
Net Sales (Notes 16, 24 and 25)	¥2,074,428	¥2,808,824	\$20,961,378
Cost of Sales (Notes 11 and 18)	1,206,425	1,594,717	11,900,873
Gross profit	868,002	1,214,107	9,060,505
Selling, General and Administrative Expenses (Notes 11, 17 and 18)	191,680	215,905	1,611,232
Operating income (Note 25)	676,322	998,202	7,449,272
Other Income (Expenses):			
Interest income (Note 30)	2,376	16,575	123,697
Equity in earnings (losses) of affiliates	7,140	9,522	71,066
Foreign exchange gain (loss)	14,265	(3,195)	(23,849)
Interest expenses (Note 30)	(983)	(1,490)	(11,119)
Loss on retirement of property, plant and equipment	(2,814)	(4,910)	(36,648)
Other, net (Note 30)	(1,871)	5,507	41,098
Ordinary income	694,434	1,020,211	7,613,517
Extraordinary income:			
Gain on sales of property, plant and equipment (Note 19)	1,703	-	-
Extraordinary loss:			
Income before income taxes and non-controlling interests	696,137	1,020,211	7,613,517
Income Taxes (Note 21):			
Current	172,596	240,459	1,794,470
Deferred	(1,491)	16,131	120,382
Total Income Taxes	171,105	256,590	1,914,853
Net Income	525,032	763,620	5,698,664
Net Income Attributable to Non-Controlling Interests	(24,914)	(55,382)	(413,304)
Net Income Attributable to Owners of Parent	¥500,117	¥708,238	\$5,285,359
			U.S. dollars (Note 3)
Earnings per Share :			
Net income attributable to owners of parent—basic	¥240.76	¥347.84	\$2.595
Net income attributable to owners of parent—fully diluted	240.55	347.61	\$2.594
Cash dividends	400.00	500.00	\$3.731
Weighted-Average Number of Shares Outstanding (Thousands)	415,449	407,219	407,219

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

- Notes: 1. The Company enacted a five-for-one stock split of its common stock with an effective date of April 1, 2023. Based on "Accounting Standard for Earnings Per Share", "Net income attributable to owners of parent-basic" and "Net income attributable to owners of parent-fully diluted" represent the amount after the stock split.
2. As the record date was prior to the stock split date (April 1, 2023), "Cash dividends" is based on the shares before the stock split.

Consolidated Statement of Comprehensive Income

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES
For the fiscal years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2022	2023	2023
Net Income	¥525,032	¥763,620	\$5,698,664
Other Comprehensive Income (Note 22):			
Unrealized gains (losses) on available-for-sale securities	1,821	4,659	34,772
Deferred gains (losses) on hedges	171	2,120	15,825
Foreign currency translation adjustments	137,079	225,081	1,679,712
Remeasurements of defined benefit plans	3,465	5,325	39,745
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	668	176	1,314
Total other comprehensive income (loss)	143,206	237,363	1,771,371
Comprehensive Income	¥668,238	¥1,000,984	\$7,470,035
(Breakdown)			
Comprehensive income attributable to owners of parent	¥639,552	¥942,849	\$7,036,193
Comprehensive income attributable to non-controlling interests	28,686	58,134	433,842

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				Total
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
Balance at April 1, 2021	416,662	¥119,419	¥128,954	¥2,616,081	¥(12,612)	¥2,851,842
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						
Balance at March 31, 2022	416,662	¥119,419	¥129,090	¥2,993,026	¥(15,702)	¥3,225,834

	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			
Balance at April 1, 2021	¥25,027	¥(2,703)	¥(58,618)	¥(2,409)	¥(38,704)	¥2,014	¥71,473	¥2,886,625
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
Balance at March 31, 2022	¥26,841	¥(2,535)	¥75,374	¥1,049	¥100,729	¥2,733	¥99,910	¥3,429,208

	Thousands	Millions of yen				
	Number of shares of common stock	Stockholders' Equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total
Balance at April 1, 2022	416,662	¥119,419	¥129,090	¥2,993,026	¥(15,702)	¥3,225,834
Cash dividends				(195,365)		(195,365)
Net income attributable to owners of parent				708,238		708,238
Purchase of treasury stock					(206,788)	(206,788)
Disposal of treasury stock			(935)		4,101	3,165
Retirement of treasury stock	(11,838)		(195,497)		195,497	
Transfer to additional paid-in capital from retained earnings			195,694	(195,694)		
Others			(31)			(31)
Net changes of items other than stockholders' equity						
Balance at March 31, 2023	404,824	¥119,419	¥128,320	¥3,310,205	¥(22,891)	¥3,535,053

	Millions of yen							
	Accumulated Other Comprehensive Income							
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2022	¥26,841	¥(2,535)	¥75,374	¥1,049	¥100,729	¥2,733	¥99,910	¥3,429,208
Cash dividends								(195,365)
Net income attributable to owners of parent								708,238
Purchase of treasury stock								(206,788)
Disposal of treasury stock								3,165
Retirement of treasury stock								
Transfer to additional paid-in capital from retained earnings								
Others								(31)
Net changes of items other than stockholders' equity	4,670	2,125	222,480	5,335	234,611	1,080	52,089	287,782
Balance at March 31, 2023	¥31,511	¥(410)	¥297,855	¥6,385	¥335,341	¥3,814	¥151,999	¥4,026,209

	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
Balance at April 1, 2022	416,662	\$891,191	\$963,361	\$22,336,020	\$(117,183)	\$24,073,390
Cash dividends				(1,457,949)		(1,457,949)
Net income attributable to owners of parent				5,285,359		5,285,359
Purchase of treasury stock					(1,543,197)	(1,543,197)
Disposal of treasury stock			(6,981)		30,606	23,624
Retirement of treasury stock	(11,838)		(1,458,939)		1,458,939	
Transfer to additional paid-in capital from retained earnings			1,460,406	(1,460,406)		
Others			(233)			(233)
Net changes of items other than stockholders' equity						
Balance at March 31, 2023	404,824	\$891,191	\$957,614	\$24,703,023	\$(170,835)	\$26,380,993

	Thousands of U.S. dollars (Note 3)							
	Accumulated Other Comprehensive Income							
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Share subscription rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2022	\$200,309	\$(18,925)	\$562,496	\$7,833	\$751,714	\$20,400	\$745,599	\$25,591,105
Cash dividends								(1,457,949)
Net income attributable to owners of parent								5,285,359
Purchase of treasury stock								(1,543,197)
Disposal of treasury stock								23,624
Retirement of treasury stock								
Transfer to additional paid-in capital from retained earnings								
Others								(233)
Net changes of items other than stockholders' equity	34,850	15,863	1,660,302	39,817	1,750,833	8,066	388,728	2,147,628
Balance at March 31, 2023	\$235,160	\$(3,061)	\$2,222,798	\$47,650	\$2,502,548	\$28,466	\$1,134,327	\$30,046,336

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

Note: Although the Company enacted a five-for-one stock split of its common stock with an effective date of April 1, 2023, "Number of shares of common stock" before the split is shown. "Number of shares of common stock" after the split is 2,024,122 thousand shares.

Consolidated Statement of Cash Flows

SHIN-ETSU CHEMICAL CO., LTD. AND SUBSIDIARIES

For the fiscal years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2022	2023	2023
Cash Flows from Operating Activities:			
Income before income taxes and non-controlling interests	¥696,137	¥1,020,211	\$7,613,517
Depreciation and amortization	168,788	213,632	1,594,275
Loss on impairment of fixed assets	1,086	1,510	11,275
Increase (decrease) in net defined benefit liability	3,041	2,441	18,218
(Gain) loss on sales of investments in securities	(295)	(58)	(433)
(Gain) loss on revaluation of investments in securities	180	-	-
Increase (decrease) in allowance for doubtful accounts	3,195	(266)	(1,988)
Interest and dividend income	(4,929)	(19,940)	(148,813)
Interest expenses	983	1,490	11,119
Exchange (gain) loss	(8,842)	(1,082)	(8,078)
Equity in (earnings) losses of affiliates	(7,140)	(9,522)	(71,066)
(Increase) decrease in notes and accounts receivable	(119,162)	29,718	221,783
(Increase) decrease in inventories	(69,097)	(210,959)	(1,574,326)
(Increase) decrease in long-term advance payment	(3,951)	2,899	21,637
Increase (decrease) in notes and accounts payable	47,436	(1,702)	(12,702)
Other, net	(12,622)	4,592	34,273
Subtotal	694,808	1,032,964	7,708,692
Proceeds from interest and dividends	6,984	23,220	173,286
Payments of interest	(816)	(1,234)	(9,210)
Payments of income taxes	(147,448)	(266,937)	(1,992,070)
Net cash provided by operating activities	553,528	788,013	5,880,697
Cash Flows from Investing Activities:			
(Increase) decrease in time deposits	(40,783)	9,995	74,593
Purchases of securities	(63,000)	(5,000)	(37,313)
Proceeds from redemption of securities	56,598	111,394	831,299
Purchases of property, plant and equipment	(195,775)	(295,517)	(2,205,351)
Proceeds from sales of property, plant and equipment	2,345	276	2,061
Purchases of intangible fixed assets	(1,781)	(3,850)	(28,737)
Purchases of investments in securities	(8,099)	(9,032)	(67,409)
Proceeds from sales and redemption of investments in securities	389	86	647
Proceeds from sale and redemption of securities	-	5,010	37,395
Payments of loans	(9)	(152)	(1,137)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(3,552)	-	-
Proceeds from collection of loans	260	0	4
Other, net	(315)	300	2,240
Net cash provided by (used for) investing activities	(253,723)	(186,488)	(1,391,707)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term borrowings	(1,100)	(1,521)	(11,357)
Proceeds from long-term debt	4,677	5,000	37,313
Repayments of long-term debt	(3,041)	(6,029)	(44,997)
Purchases of treasury stock	(5,954)	(206,788)	(1,543,197)
Proceeds from sales of treasury stock	2,634	2,811	20,979
Cash dividends paid	(120,481)	(195,365)	(1,457,949)
Other, net	761	(21,665)	(161,685)
Net cash used for financing activities	(122,504)	(423,559)	(3,160,894)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	29,963	60,454	451,151
Net Increase (Decrease) in Cash and Cash Equivalents	207,263	238,419	1,779,247
Cash and Cash Equivalents at Beginning of Year	801,596	1,008,925	7,529,292
Increase in cash and cash equivalents from newly consolidated subsidiary	64	-	-
Cash and Cash Equivalents at End of Year, inclusion of subsidiaries in consolidation (Note 23)	¥1,008,925	¥1,247,344	\$9,308,539

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, 2022 and 2023

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 46 with their respective fiscal year-ends.

Moreover, from the fiscal year ended March 31, 2023, 1 company was 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, 2022 and 2023.

(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

Net income per share-basic is based upon the weighted-average number of shares of common stock outstanding during each fiscal year. Net income per share-fully diluted 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 ¥134 to US\$1, the approximate effective rate of exchange on March 31, 2023. 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 ¥134 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 24.

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, 2022 and 2023, the book value, fair value and the difference between the two are as follows:

	Millions of yen		
	2022		
	Book value	Fair value	Difference
Assets:			
(1) Securities and investments in securities(*2)			
i) Held-to-maturity debt securities	¥26,946	¥26,893	¥(53)
ii) Investments in and advances to unconsolidated subsidiaries and affiliates	30,871	36,135	5,263
iii) Available-for-sale securities	385,279	385,279	—
(2) Long-term loans	240	252	11
Total	¥443,337	¥448,559	¥5,222
Liabilities:			
(3) Long-term debt	¥16,940	¥16,477	¥(462)
Total	¥16,940	¥16,477	¥(462)
(4) Derivative transactions(*3):			
Hedge accounting not applied	¥(3,899)	¥(3,899)	¥—
Hedge accounting applied	(3,759)	(3,759)	—
Total	¥(7,658)	¥(7,658)	¥—

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 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

*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		
	2023			2023		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Securities and investments in securities(*2)						
i) Held-to-maturity debt securities	¥26,050	¥25,327	¥(722)	\$194,408	\$189,014	\$(5,393)
ii) Investments in and advances to subsidiaries and affiliates	33,480	41,448	7,967	249,855	309,315	59,459
iii) Available-for-sale securities	219,334	219,334	—	1,636,824	1,636,824	—
(2) Long-term loans	192	199	7	1,434	1,491	57
Total	¥279,057	¥286,310	¥7,252	\$2,082,522	\$2,136,646	\$54,124
Liabilities:						
(3) Long-term debt	¥18,812	¥18,191	¥(621)	\$140,394	\$135,757	\$(4,637)
Total	¥18,812	¥18,191	¥(621)	\$140,394	\$135,757	\$(4,637)
(4) Derivative transactions(*3):						
Hedge accounting not applied	¥(197)	¥(197)	¥—	\$(1,474)	\$(1,474)	\$—
Hedge accounting applied	(376)	(376)	—	(2,812)	(2,812)	—
Total	¥(574)	¥(574)	¥—	\$(4,286)	\$(4,286)	\$—

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 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.	¥43,275 million (\$322,950 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				
	2022				
	Within one year	Over one year within five years	Over five years within ten years	Over ten years	
Time deposits	¥1,112,639	¥—	¥—	¥—	¥—
Notes and accounts receivable-trade	473,444	—	—	—	—
Securities and investments in securities	323,305	9,062	2,078	—	—
Long-term loans	—	211	19	—	8
Total	¥1,909,389	¥9,274	¥2,098		¥8

Description	Millions of yen				Thousands of U.S. dollars			
	2023				2023			
	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	¥1,449,551	¥—	¥—	¥—	\$10,817,551	\$—	\$—	\$—
Notes and accounts receivable-trade	472,505	—	—	—	3,526,162	—	—	—
Securities and investments in securities	151,031	5,126	3,393	5,000	1,127,097	38,257	25,321	37,313
Long-term loans	—	181	2	8	—	1,354	17	61
Total	¥2,073,088	¥5,308	¥3,395	¥5,008	\$15,470,811	\$39,612	\$25,339	\$37,374

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

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
Total	¥15,046	¥3,761	¥4,763	¥4,896	¥3,555	¥6,932

Description	Millions of yen					
	2023					
	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	¥6,154	¥—	¥—	¥—	¥—	¥—
Long-term debt	4,843	5,331	3,479	1,975	830	7,196
Lease obligations	3,961	3,447	2,766	2,174	1,427	3,508
Total	¥14,959	¥8,779	¥6,245	¥4,150	¥2,257	¥10,704

Description	Thousands of U.S. dollars					
	2023					
	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	\$45,932	\$—	\$—	\$—	\$—	\$—
Long-term debt	36,145	39,784	25,967	14,743	6,196	53,703
Lease obligations	29,561	25,730	20,644	16,229	10,653	26,183
Total	\$111,638	\$65,515	\$46,611	\$30,972	\$16,850	\$79,887

(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			
	2022			
	Level1	Level2	Level3	Total
Assets:				
Securities and investments in securities				
Available-for-sale securities				
Stocks	¥73,764	¥—	¥—	¥73,764
Total	¥73,764	¥—	¥—	¥73,764
Derivative transactions:				
Hedge accounting not applied	¥—	¥(3,899)	¥—	¥(3,899)
Hedge accounting applied	—	(3,759)	—	(3,759)
Total	¥—	¥(7,658)	¥—	¥(7,658)

As of March 31, 2023, financial instruments recorded on the consolidated balance sheet at fair value are as follows:

	Millions of yen				Thousands of U.S. dollars			
	2023				2023			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
Assets:								
Securities and investments in securities								
Available-for-sale securities								
Stocks	¥80,834	¥—	¥—	¥80,834	\$603,242	\$—	\$—	\$603,242
Total	¥80,834	¥—	¥—	¥80,834	\$603,242	\$—	\$—	\$603,242
Derivative transactions:								
Hedge accounting not applied	¥—	¥(197)	¥—	¥(197)	\$—	\$(1,474)	\$—	\$(1,474)
Hedge accounting applied	—	(376)	—	(376)	—	(2,812)	—	(2,812)
Total	¥—	¥(574)	¥—	¥(574)	\$—	\$(4,286)	\$—	\$(4,286)

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			
	2022			
	Level1	Level2	Level3	Total
Assets:				
Securities and investments in securities				
Held-to-maturity debt securities	¥—	¥26,893	¥—	¥26,893
Investments in and advances to unconsolidated subsidiaries and affiliates	36,135	—	—	36,135
Available-for-sale securities				
Quoted bonds, negotiable certificates of deposit, money trusts and trust beneficiary rights	—	311,514	—	311,514
Long-term loans	—	252	—	252
Total	¥36,135	¥338,659	¥—	¥374,794
Liabilities:				
Long-term debt				
	¥—	¥16,477	¥—	¥16,477
Total	¥—	¥16,477	¥—	¥16,477

As of March 31, 2023, 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			
	2023				2023			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
Assets:								
Securities and investments in securities								
Held-to-maturity debt securities	¥—	¥25,327	¥—	¥25,327	\$—	\$189,014	\$—	\$189,014
Investments in and advances to unconsolidated subsidiaries and affiliates	41,448	—	—	41,448	309,315	—	—	309,315
Available-for-sale securities								
Negotiable certificates of deposit, money trusts and trust beneficiary rights	—	138,500	—	138,500	—	1,033,582	—	1,033,582
Long-term loans	—	199	—	199	—	1,491	—	1,491
Total	¥41,448	¥164,027	¥—	¥205,476	\$309,315	\$1,224,088	\$—	\$1,533,404
Liabilities:								
Long-term debt								
	¥—	¥18,191	¥—	¥18,191	\$—	\$135,757	\$—	\$135,757
Total	¥—	¥18,191	¥—	¥18,191	\$—	\$135,757	\$—	\$135,757

*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		
	2022			2023			2023		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value that exceeds book value	¥2,654	¥2,692	¥38	¥5,000	¥5,032	¥32	\$37,313	\$37,558	\$244
Securities with fair value that does not exceed book value	24,291	24,200	(91)	21,050	20,295	(755)	157,094	151,456	(5,638)
Total	¥26,946	¥26,893	¥(53)	¥26,050	¥25,327	¥(722)	\$194,408	\$189,014	\$(5,393)

(2) Available-for-sale securities

Description	Millions of yen						Thousands of U.S. dollars		
	2022			2023			2023		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value that exceeds acquisition cost	¥71,775	¥32,324	¥39,451	¥80,144	¥34,347	¥45,796	\$598,093	\$256,327	\$341,765
Securities with book value that does not exceed acquisition cost	313,504	314,179	(675)	139,189	139,518	(328)	1,038,730	1,041,179	(2,448)
Total	¥385,279	¥346,503	¥38,775	¥219,334	¥173,865	¥45,468	\$1,636,824	\$1,297,506	\$339,317

Notes: 1. Non-listed equity securities, with a book value of ¥3,607 million, and other investment securities with a book value of ¥406 million, as of March 31, 2022, whose fair value is extremely difficult to estimate are excluded from the above.

2. Non-listed equity securities, with a book value of ¥4,156 million (\$31,019 thousand), and other investment securities with a book value of ¥1,274 million (\$9,508 thousand), as of March 31, 2023, 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, 2022

Description	Millions of yen			
	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)
EUR	3,508	—	(122)	(122)
Other	3,044	—	9	9
Purchase contracts:				
USD	666	—	9	9
Other	3,495	—	(13)	(13)
Currency swap				
Pay TWD and Receive JPY	1,953	1,953	(103)	(103)
Total	¥90,964	¥1,953	¥(3,899)	¥(3,899)

As of March 31, 2023

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	¥60,354	¥—	¥(85)	¥(85)	\$450,403	\$—	\$(641)	\$(641)
EUR	2,916	—	(38)	(38)	21,767	—	(287)	(287)
Other	2,152	—	53	53	16,063	—	399	399
Purchase contracts:								
USD	634	—	(17)	(17)	4,732	—	(127)	(127)
Other	9,550	—	82	82	71,274	—	616	616
Currency swap								
Pay TWD and Receive JPY	1,953	1,953	(192)	(192)	14,578	14,578	(1,434)	(1,434)
Total	¥77,561	¥1,953	¥(197)	¥(197)	\$578,820	\$14,578	\$(1,474)	\$(1,474)

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

1) Currency related:

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	Forward foreign exchange contracts:				
	Sales contracts				
	USD	Accounts receivable-trade	¥97,018	¥—	¥(5,007)
Purchase contracts					
	EUR	Accounts payable-trade	5,081	—	346
Total			¥102,100	¥—	¥(4,660)

As of March 31, 2023

			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	¥82,336	¥—	¥1,168	\$614,448	\$—	\$8,719
Total			¥82,336	¥—	¥1,168	\$614,448	\$—	\$8,719

2) Commodity related:

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
Total			¥6,073	¥1,484	¥901

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

As of March 31, 2023

			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	¥16,405	¥8,509	¥(1,545)
Total			¥16,405	¥8,509	¥(1,545)

			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	\$122,432	\$63,504	\$(11,531)
Total			\$122,432	\$63,504	\$(11,531)

8. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2022 and 2023 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Investments in securities (Stocks)	¥67,944	¥71,325	\$532,278
Other (Investments in capital)	3,761	3,777	28,193

9. ACCUMULATED DEPRECIATION

Accumulated depreciation of property, plant and equipment as of March 31, 2022 and 2023 was ¥2,500,352 million and ¥2,782,197 million (\$20,762,670 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, 2022 and 2023 consisted of the following:

	Average interest rate	Due date	Millions of yen		Thousands of U.S. dollars
			2022	2023	2023
Short-term borrowings	1.1%	—	¥7,508	¥6,154	\$45,932
Current portion of long-term debt	4.2%	—	5,952	4,843	36,145
Current portion of lease obligations	2.2%	—	1,585	3,961	29,561
Long-term debt, excluding current portion	3.1%	January 2024- November 2031	16,940	18,812	140,394
Lease obligations, excluding current portion	2.1%	January 2024- December 2040	6,969	13,325	99,441
Total			¥38,957	¥47,097	\$351,474

Notes: 1. Average interest rate is the weighted average rate based on the balance as of March 31, 2023.

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, 2023 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
2025	¥5,331	¥3,447	\$39,784	\$25,730
2026	3,479	2,766	25,967	20,644
2027	1,975	2,174	14,743	16,229
2028	830	1,427	6,196	10,653

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, 2022 and 2023 is as follows:

1. Defined Benefit Pension Plans

(1) Changes in Benefit Obligations

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Beginning balance of benefit obligations	¥81,425	¥86,433	\$645,023
Service costs	4,623	4,609	34,401
Interest costs	1,143	1,522	11,364
Actuarial differences arising during the year	(2,606)	(25,524)	(190,482)
Retirement benefits paid	(3,041)	(2,520)	(18,808)
Other*	4,890	9,587	71,545
Ending balance of benefit obligations	¥86,433	¥74,107	\$553,042

*Mainly foreign currency translation adjustments

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Beginning balance of pension assets	¥43,751	¥48,884	\$364,807
Expected return on pension assets	1,668	1,705	12,724
Actuarial differences arising during the year	1,582	(13,082)	(97,630)
Contributions made by the Company and consolidated subsidiaries	450	1,043	7,786
Retirement benefits paid	(2,299)	(1,544)	(11,524)
Other*	3,732	4,109	30,671
Ending balance of pension assets	¥48,884	¥41,115	\$306,835

*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
	2022	2023	2023
Funded benefit obligations	¥77,665	¥66,089	\$493,206
Pension assets	(48,884)	(41,115)	(306,835)
Net	28,781	24,973	186,370
Unfunded benefit obligations	8,767	8,018	59,836
Net amount of liability and asset on Consolidated Balance Sheets	¥37,548	¥32,991	\$246,207

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net defined benefit liability	¥41,469	¥36,933	\$275,626
Net defined benefit asset	(3,920)	(3,942)	(29,419)
Net amount of liability and asset on Consolidated Balance Sheets	¥37,548	¥32,991	\$246,207

(4) Retirement Benefit Expenses

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Service costs	¥4,623	¥4,609	\$34,401
Interest costs	1,143	1,522	11,364
Expected return on pension assets	(1,668)	(1,705)	(12,724)
Amortization of actuarial differences	323	(1,553)	(11,595)
Amortization of prior service cost	(49)	(57)	(426)
Retirement benefit expenses for defined benefit pension plans	¥4,371	¥2,816	\$21,018

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Actuarial differences	¥4,548	¥10,668	\$79,618
Prior service cost	(86)	72	539
Total	¥4,461	¥10,741	\$80,157

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Unrecognized actuarial differences	¥(2,628)	¥8,039	\$59,999
Unrecognized prior service cost	265	338	2,523
Total	¥(2,363)	¥8,378	\$62,522

(7) Pension Assets**Breakdown**

	2022	2023
Bonds	40%	43%
Stocks	28%	31%
Other	32%	26%
Total	100%	100%

(Note) 14% and 17% of total pension assets amount were in a "Retirement Benefit Trust" for lump-sum severance payment plans as of March 31, 2022 and 2023, 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

	2022	2023
Discount rate	Mainly 0.4%	Mainly 0.8%
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
	2022	2023	2023
	¥2,699	¥3,226	\$24,074

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, 2022 and 2023 in the aggregate amounts of ¥3 million and ¥2 million (\$21 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, 2022 and 2023 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, 2022							
Ordinary general meeting of shareholders held on June 29, 2021	Common stock	March 31, 2021	June 30, 2021	¥58,176		¥140.00	
Board of directors meeting held on October 27, 2021	Common stock	September 30, 2021	November 19, 2021	62,305		150.00	

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, 2023							
Ordinary general meeting of shareholders held on June 29, 2022	Common stock	March 31, 2022	June 30, 2022	¥103,861	¥250.00	\$775,083	\$1.86
Board of directors meeting held on October 27, 2022	Common stock	September 30, 2022	November 21, 2022	91,504	225.00	682,865	1.67

(2) Cash dividends for the fiscal years ended March 31, 2022 and 2023 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, 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	

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, 2023								
Ordinary general meeting of shareholders held on June 29, 2023	Common stock	Retained earnings	March 31, 2023	June 30, 2023	¥110,965	¥275.00	\$828,097	\$2.05

(3) As the record date was prior to the stock split date (April 1, 2023), "Cash dividends per share" above is based on the shares before the stock split.

14. SHARE SUBSCRIPTION RIGHTS

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
			Beginning balance	Increase	Decrease	Ending balance	Balance at March 31, 2022
The Company	Stock options	Common stock	1,045,800	334,500	229,100	1,151,200	¥2,392
Consolidated subsidiary	—	—	—	—	—	—	341
Total							¥2,733

Fiscal year ended March 31, 2023

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, 2023	Balance at March 31, 2023
The Company	Stock options	Common stock	1,151,200	348,000	247,800	1,251,400	¥3,419	\$25,522
Consolidated subsidiary	—	—	—	—	—	—	394	2,944
Total							¥3,814	\$28,466

(Note) The Company enacted a five-for-one stock split of its common stock with an effective date of April 1, 2023. Since the effective date of the stock split was after the end of the fiscal year, the information prior to the split is represented.

15. STOCK OPTIONS

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

The stock option expenses for the fiscal years ended March 31, 2022 and 2023 of ¥1,034 million and ¥1,388 million (\$10,359 thousand), respectively, were included in selling, general and administrative expenses in the consolidated statements of income. There were no gains on forfeited stock options for the fiscal year ended March 31, 2022, gains on forfeited stock options for the fiscal year ended March 31, 2023 were ¥5 million (\$44 thousand). In addition, the Company enacted a five-for-one stock split of its common stock with an effective date of April 1, 2023. Since the effective date of the stock split was after the end of the fiscal year, the information prior to the split is represented.

Stock options as of March 31, 2023 were as follows:

	2018	2019	2020
Grantees	18 directors of the Company 94 employees of the Company	17 directors of the Company 100 employees of the Company	16 directors of the Company 105 employees of the Company
Number of stock options granted by category of stock (in shares)	497,000 shares of common stock	544,000 shares of common stock	339,000 shares of common stock
Grant date	September 5, 2018	September 30, 2019	September 2, 2020
Vesting conditions	None	None	None
Exercise period	September 6, 2019 through March 31, 2023	October 1, 2020 through March 31, 2024	September 3, 2021 through March 31, 2025
	2021	2023	
Grantees	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	5 directors of the Company (excluding outside directors) 11 corporate officers of the Company (excluding those concurrently serving as directors) 108 employees of the Company	
Number of stock options granted by category of stock (in shares)	334,500 shares of common stock	348,000 shares of common stock	
Grant date	September 1, 2021	February 10, 2023	
Vesting conditions	None	None	
Exercise period	September 2, 2023 through August 31, 2028	February 11, 2025 through February 9, 2030	

Movement in stock options during the fiscal year ended March 31, 2023 was as follows

	Number of shares					
	2017	2018	2019	2020	2021	2023
Beginning balance (Stock options outstanding)	4,000	147,600	350,200	314,900	334,500	—
Granted	—	—	—	—	—	348,000
Exercised	—	118,900	85,700	39,200	—	—
Forfeited	4,000	—	—	—	—	—
Ending balance (Stock options outstanding)	—	28,700	264,500	275,700	334,500	348,000
	Yen					
Exercise price	—	¥10,721	¥11,906	¥13,123	¥18,503	¥17,912
Weighted average market value per share at the exercise date	—	18,945	19,086	18,562	—	—
Fair value per share at the grant date	—	1,202	1,552	2,004	3,092	3,989
	U.S. dollars					
Exercise price	—	\$80.00	\$88.85	\$97.93	\$138.08	\$133.67
Weighted average market value per share at the exercise date	—	141.38	142.43	138.52	—	—
Fair value per share at the grant date	—	8.97	11.58	14.95	23.07	29.76

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

Stock options granted on February 10, 2023

Expected volatility	28.36
Expected remaining life	4.50 years
Expected dividend	500 yen
Risk-free interest rate	0.177%

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

The stock option expenses for the fiscal years ended March 31, 2022 and 2023 of ¥91 million and ¥109 million (\$813 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, 2022 and 2023 were ¥27 million and ¥3 million (\$24 thousand), respectively.

Stock options as of March 31, 2023 were as follows:

	2017	2018	2019
Grantees	10 Directors 19 Employees 6 Directors of its subsidiaries	10 Directors 18 Employees 6 Directors of its subsidiaries	9 Directors 23 Employees 6 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	457,000 shares of common stock	487,000 shares of common stock	456,000 shares of common stock
Grant date	September 12, 2017	September 12, 2018	September 11, 2019
Vesting conditions	None	None	None
Exercise period	September 13, 2019 through March 31, 2023	September 13, 2020 through March 31, 2024	September 12, 2021 through March 31, 2025
	2020	2021	2022
Grantees	9 Directors 25 Employees 5 Directors of its subsidiaries	3 Directors 8 Corporate officers 20 Employees 4 Directors of its subsidiaries	3 Directors 8 Corporate officers 25 Employees 4 Directors of its subsidiaries
Number of stock options granted by category of stock (in shares)	461,000 shares of common stock	475,000 shares of common stock	500,000 shares of common stock
Grant date	September 10, 2020	September 10, 2021	September 12, 2022
Vesting conditions	None	None	None
Exercise period	September 11, 2022 through March 31, 2026	September 11, 2023 through March 31, 2027	September 13, 2024 through March 31, 2028

Movement in stock options during the fiscal year ended March 31, 2023 was as follows:

	Number of shares						
	2016	2017	2018	2019	2020	2021	2022
Beginning balance (Stock options outstanding)	21,200	372,000	397,000	327,200	461,000	475,000	—
Granted	—	—	—	—	—	—	500,000
Exercised	—	158,300	77,200	65,800	33,700	—	—
Forfeited	21,200	5,000	—	—	1,300	—	—
Ending balance (Stock options outstanding)	—	208,700	319,800	261,400	426,000	475,000	500,000
	Yen						
Exercise price	—	¥1,056	¥962	¥759	¥910	¥1,051	¥1,410
Weighted average market value per share at the exercise date	—	1,415.08	1,355.44	1,295.60	1,346.23	—	—
Fair value per share at the grant date	—	172	121	147	191	192	218
	U.S. dollars						
Exercise price	—	\$7.88	\$7.17	\$5.66	\$6.79	\$7.84	\$10.52
Weighted average market value per share at the exercise date	—	10.56	10.11	9.66	10.04	—	—
Fair value per share at the grant date	—	1.28	0.90	1.09	1.42	1.43	1.62

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

Stock options granted on September 12, 2022

Expected volatility	28.58
Expected remaining life	3.78 years
Expected dividend	26 yen
Risk-free interest rate	(0.058)%

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

Net sales for the fiscal year ended March 31, 2023 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 24.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2022 and 2023 mainly consisted of the following:

	Millions of yen		Thousands of
	2022	2023	U.S. dollars
Shipping expenses	¥66,925	¥75,353	\$562,342
Salaries and allowances	33,192	35,689	266,341
Provision for bonuses for employees	1,309	1,522	11,359
Provision for bonuses for directors	609	460	3,435
Retirement benefit expenses	493	375	2,802
Depreciation and amortization	3,014	3,252	24,269
Provision of allowance for doubtful accounts	(11)	(437)	(3,267)

18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and charged to income for the fiscal years ended March 31, 2022 and 2023 were ¥62,455 million and ¥67,201 million (\$501,500 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. LEASE TRANSACTIONS

The amounts of outstanding future lease payments due in respect of operating lease contracts at March 31, 2022 and 2023 are summarized as follows:

	Millions of yen		Thousands of
	2022	2023	U.S. dollars
Future Lease Payments:			2023
Within one year	¥2,721	¥853	\$6,367
Over one year	10,346	5,083	37,936
	¥13,067	¥5,936	\$44,303

21. 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, 2022 and 2023.

The tax effects of significant temporary differences and tax loss carry forwards that resulted in deferred tax assets or liabilities at March 31, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Deferred Tax Assets:			
Unrealized profit	¥10,569	¥17,741	\$132,396
Depreciation and amortization	15,430	16,558	123,568
Net defined benefit liability	11,997	11,777	87,894
Accrued bonuses	4,285	4,572	34,124
Maintenance costs	5,384	4,468	33,345
Unsettled accounts receivable and payable	3,551	4,273	31,891
Accrued enterprise taxes	2,967	2,995	22,358
Allowance for doubtful accounts	2,693	2,478	18,495
Tax loss carryforwards	810	352	2,630
Unrealized gains/losses on available-for-sale securities	250	304	2,272
Other	28,504	35,365	263,921
Valuation allowance	(3,808)	(3,634)	27,123
Total	¥82,637	¥97,254	\$725,776
Deferred Tax Liabilities:			
Depreciation and amortization	¥59,534	¥84,669	\$631,863
Unrealized gains/losses on available-for-sale securities	12,036	14,172	105,766
Reserve for special depreciation	36	11	82
Other	12,268	35,618	265,812
Total	¥83,876	¥134,472	\$1,003,525
Net deferred tax assets (liabilities)	¥(1,239)	¥37,218	\$277,748

A reconciliation of the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2022 and 2023 is as follows:

	2022	2023
Statutory tax rate	30.5 %	30.5 %
Rate difference from foreign subsidiaries	(4.8)	(3.6)
Equity in (earnings) losses of affiliates	(0.3)	(0.3)
Dividend and other non-taxable income	(1.3)	(2.6)
Elimination of intercompany dividend income	1.4	2.7
Tax deduction for research expenses and other	(0.7)	(0.6)
Entertainment and other non-deductible expenses	0.0	0.0
Other, net	(0.1)	(1.0)
Effective tax rate	24.6	25.2

22. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal years ended March 31, 2022 and 2023 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Unrealized gains (losses) on available-for-sale securities			
Amount arising during the year	¥2,560	¥6,903	\$51,522
Reclassification adjustment for gains and losses included in profit or loss	18	(162)	(1,212)
Unrealized gains (losses) on available-for-sale securities before tax	2,578	6,741	50,309
Tax effect	(757)	(2,082)	(15,538)
Unrealized gains (losses) on available-for-sale securities	1,821	4,659	34,771
Deferred gains (losses) on hedges			
Amount arising during the year	(4,284)	(15,714)	(117,271)
Reclassification adjustment for gains and losses included in profit or loss	4,233	19,077	142,368
Deferred gains (losses) on hedges before tax	(50)	3,362	25,096
Tax effect	222	(1,242)	(9,271)
Deferred gains (losses) on hedges	171	2,120	15,825
Foreign currency translation adjustments			
Amount arising during the year	137,079	225,081	1,679,712
Remeasurements of defined benefit plans			
Amount arising during the year	4,188	10,872	81,141
Reclassification adjustment for gains and losses included in profit or loss	273	(131)	(984)
Remeasurements of defined benefit plans before tax	4,461	10,741	80,157
Tax effect	(996)	(5,415)	(40,411)
Remeasurements of defined benefit plans	3,465	5,325	39,745
Share of other comprehensive income (loss) of affiliates accounted for using the equity method			
Amount arising during the year	665	169	1,262
Reclassification adjustment for gains and losses included in profit or loss	2	7	52
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	668	176	1,314
Total other comprehensive income (loss)	¥143,206	¥237,363	\$1,771,370

23. 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, 2022 and 2023 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash and time deposits	¥1,112,775	¥1,449,617	\$10,818
Securities	323,305	151,031	1,127
Time deposits (maturities over three months)	(289,850)	(317,272)	(2,367)
Securities (maturities over three months)	(137,305)	(36,031)	(268)
Cash and cash equivalents	¥1,008,925	¥1,247,344	\$9,308

24. 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
Total	¥857,189	¥708,979	¥395,626	¥112,632	¥2,074,428

Millions of yen					
2023					
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total
Sales to outside customers					
Domestic production	¥139,273	¥683,892	¥307,745	¥93,392	¥1,224,304
Overseas production	1,168,826	191,754	185,640	38,299	1,584,520
Total	¥1,308,099	¥875,646	¥493,386	¥131,691	¥2,808,824

Thousands of U.S. dollars					
2023					
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total
Sales to outside customers					
Domestic production	\$1,039,354	\$5,103,676	\$2,296,608	\$696,958	\$9,136,598
Overseas production	8,722,582	1,431,002	1,385,378	285,816	11,824,780
Total	\$9,761,937	\$6,534,678	\$3,681,987	\$982,775	\$20,961,378

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	2023	2023
Receivables from contracts with customers (Beginning balance)	¥336,571	¥473,444	\$3,533,165
Receivables from contracts with customers (Ending balance)	473,444	472,505	3,526,162
Contract assets (Beginning balance)	1	68	514
Contract assets (Ending balance)	68	51	385
Contract liabilities (Beginning balance)	3,567	3,755	28,028
Contract liabilities (Ending balance)	3,755	3,419	25,519

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 previous and current fiscal year that were recognized as revenue was not material. In addition, the amount of revenue recognized in the previous and 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.

25. SEGMENT AND RELATED INFORMATION

1. Segment information

(1) Overview of reportable segments

The reportable segments of the Shin-Etsu Group are comprised of business units for which discrete financial information is available for each and are subject to regular review to evaluate their results and allocate management resources by the decision-making body of the Company.

The main products and services that belong to each segment 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.

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

	Millions of yen						Figures in consolidated financial statements
	2022						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total	Adjustment ⁽¹⁾	
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)	¥—
Total	¥861,547	¥716,099	¥410,022	¥216,434	¥2,204,104	¥(129,676)	¥2,074,428
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

Millions of yen							
2023							
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers	¥1,308,099	¥875,646	¥493,386	¥131,691	¥2,808,824	¥—	¥2,808,824
Intersegment sales	6,071	6,812	29,478	133,592	175,955	(175,955)	¥—
Total	¥1,314,171	¥882,459	¥522,864	¥265,284	¥2,984,780	¥(175,955)	¥2,808,824
Segment income (Operating income)	¥541,344	¥301,400	¥130,608	¥26,365	¥999,719	¥(1,517)	¥998,202
Depreciation and amortization	¥72,679	¥101,827	¥34,454	¥4,770	¥213,731	¥(1,068)	¥212,663
Amortization of goodwill	¥—	¥—	¥718	251	¥969	¥—	¥969
Increase in property, plant and equipment and intangible assets	¥100,009	¥168,858	¥39,859	¥11,460	¥320,189	¥(2,142)	¥318,046

Thousands of U.S. dollars							
2023							
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Total	Adjustment ⁽¹⁾	Figures in consolidated financial statements
Sales to outside customers	\$9,761,937	\$6,534,678	\$3,681,987	\$982,775	\$20,961,378	\$—	\$20,961,378
Intersegment sales	45,310	50,842	219,988	996,959	1,313,099	(1,313,099)	\$—
Total	\$9,807,247	\$6,585,520	\$3,901,975	\$1,979,734	\$22,274,478	\$(1,313,099)	\$20,961,378
Segment income (Operating income)	\$4,039,887	\$2,249,255	\$974,692	\$196,759	\$7,460,594	\$(11,321)	\$7,449,272
Depreciation and amortization	\$542,386	\$759,906	\$257,120	\$35,598	\$1,595,011	\$(7,973)	\$1,587,038
Amortization of goodwill	\$—	\$—	\$5,361	\$1,874	\$7,236	\$—	\$7,236
Increase in property, plant and equipment and intangible assets	\$746,343	\$1,260,137	\$297,461	\$85,527	\$2,389,470	\$(15,987)	\$2,373,482

Note: [1] Elimination of intersegment transactions.

2. Related information
Geographic information

(1) Net sales

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net sales			
Japan	¥467,313	¥538,736	\$4,020,418
U.S.	613,075	979,833	7,312,190
China	179,958	236,253	1,763,087
Asia / Oceania (excluding China)	450,318	568,933	4,245,770
Europe	206,702	277,775	2,072,953
Other	157,060	207,292	1,546,958
Total	¥2,074,428	¥2,808,824	\$20,961,378

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Property, plant and equipment			
Japan	¥414,994	¥493,232	\$3,680,839
U.S.	654,395	779,752	5,819,048
Other	220,775	245,205	1,829,888
Total	¥1,290,165	¥1,518,190	\$11,329,776

3. Loss on impairment of fixed assets

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

Millions of yen						
2023						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	¥—	¥—	¥25	¥1,485	¥—	¥1,510

Thousands of U.S. dollars						
2023						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Total
Loss on impairment of fixed assets	\$—	\$—	\$190	\$11,085	\$—	\$11,275

4. Amortization of goodwill and unamortized balance

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

Millions of yen						
2023						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	¥—	¥—	¥718	¥251	¥—	¥969
Unamortized balance	¥—	¥—	¥1,942	¥244	¥—	¥2,187

Thousands of U.S. dollars						
2023						
	Infrastructure Materials	Electronics Materials	Functional Materials	Processing & Specialized Services	Elimination or common asset	Figures in consolidated financial statements
Amortization of goodwill	\$—	\$—	\$5,361	\$1,874	\$—	\$7,236
Unamortized balance	\$—	\$—	\$14,494	\$1,827	\$—	\$16,322

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties during the fiscal year ended March 31, 2022 are as follows:

							Millions of yen	
Type	Name	Percentage of voting rights	Relationship	Transactions	Transaction amount	Account	Balance at the fiscal year end	
Director or other Officer	Chihiro Kanagawa	Direct Ownership 0.07%	Representative Director-Chairman	Exercise of stock options (Note)	¥60	—	—	
Director or other Officer	Fumio Akiya	Direct Ownership 0.00%	Representative Director-Vice-Chairman	Exercise of stock options (Note)	¥297	—	—	
Director or other Officer	Yasuhiko Saitoh	Direct Ownership 0.01%	Representative Director-President	Exercise of stock options (Note)	¥29	—	—	
Director or other Officer	Masahiko Todoroki	Direct Ownership 0.00%	Director, Senior Managing Corporate Officer	Exercise of stock options (Note)	¥21	—	—	
Director or other Officer	Yukihiro Matsui	Direct Ownership 0.00%	Managing Corporate Officer	Exercise of stock options (Note)	¥64	—	—	
Director or other Officer	Masaki Miyajima	Direct Ownership 0.01%	Managing Corporate Officer	Exercise of stock options (Note)	¥59	—	—	
Director or other Officer	Kenji Ikegami	Direct Ownership 0.00%	Managing Corporate Officer	Exercise of stock options (Note)	¥58	—	—	
Director or other Officer	Toshiyuki Kasahara	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥42	—	—	
Director or other Officer	Kazumasa Maruyama	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥83	—	—	
Director or other Officer	Toshio Shiobara	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥34	—	—	
Director or other Officer	Kai Yasuoka	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥21	—	—	
Director or other Officer	Hidenori Onezawa	Direct Ownership 0.00%	Full-Time Audit & Supervisory Board Member	Exercise of stock options (Note)	¥13	—	—	

(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, 2023 are as follows:

Type	Name	Percentage of voting rights	Relationship	Transactions	Millions of yen			Thousands of U.S. dollars
					Transaction amount	Account	Balance at the fiscal year end	Transaction amount
Director or other Officer	Susumu Ueno	Direct Ownership 0.00%	Director, Senior Managing Corporate Officer	Exercise of stock options (Note)	¥107	—	—	\$800
Director or other Officer	Masahiko Todoroki	Direct Ownership 0.00%	Director, Senior Managing Corporate Officer	Exercise of stock options (Note)	¥70	—	—	\$524
Director or other Officer	Shunzo Mori	Direct Ownership 0.01%	Director - Adviser	Exercise of stock options (Note)	¥52	—	—	\$391
Director or other Officer	Toshiya Akimoto	Direct Ownership 0.00%	Managing Corporate Officer	Exercise of stock options (Note)	¥35	—	—	\$266
Director or other Officer	Yukihiro Matsui	Direct Ownership 0.00%	Managing Corporate Officer	Exercise of stock options (Note)	¥92	—	—	\$693
Director or other Officer	Masaki Miyajima	Direct Ownership 0.01%	Managing Corporate Officer	Exercise of stock options (Note)	¥47	—	—	\$355
Director or other Officer	Toshiyuki Kasahara	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥10	—	—	\$80
Director or other Officer	Kazumasa Maruyama	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥52	—	—	\$391
Director or other Officer	Toshio Shiobara	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥17	—	—	\$133
Director or other Officer	Kai Yasuoka	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥66	—	—	\$497
Director or other Officer	Ichiro Onozawa	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥26	—	—	\$195
Director or other Officer	Yukinori Satoh	Direct Ownership 0.00%	Corporate Officer	Exercise of stock options (Note)	¥41	—	—	\$310

(Note) Share subscription rights were approved at the Board of Directors meeting held on August 21, 2018, September 13, 2019 and August 18, 2020.

27. SUPPLEMENTARY INFORMATION

(Unapplied Accounting Standards)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, on October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, on October 28, 2022)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, on October 28, 2022)

(1) Overview

This stipulates the classification of income taxes when applied to other comprehensive income and the treatment of tax effects related to the sale of shares in subsidiaries when the group tax sharing system is applied.

(2) Date of application

To be applied from the beginning of the fiscal year ending March 31, 2025

(3) Effect of application

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

28. CHANGES IN ACCOUNTING POLICIES

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) is applied from the beginning of the fiscal year ended March 31, 2023. Based on the transitional treatment prescribed in Paragraph 27-2 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement", we have decided to apply the new accounting policies set forth by the "Implementation Guidance on Accounting Standard for Fair Value Measurement" into the future. This application had no impact on the consolidated financial statements.

(Application of ASC Topic 842 Leases)

At overseas subsidiaries adopting US GAAP, ASC Topic 842 Leases is applied from the beginning of the fiscal year ended March 31, 2023. The impact of the application of this accounting standard on the consolidated financial statements was immaterial.

29. Major Subsequent Events

(Stock Split and Partial Amendment of Articles of Incorporation)

Based on a resolution at the Board of Directors Meeting held on January 26, 2023, the Company implemented a stock split and partially amended its Articles of Incorporation.

1. Purpose of stock split

In consideration of the start of the new NISA program in Japan, the purpose of the stock split is to create an environment where individual investors can more easily invest in the Company's shares, thereby expanding the investor base.

2. Outline of stock split

(1) Method of stock split

The Company split each share of its common stock owned by shareholders entered or recorded in the final shareholder registry as of March 31, 2023 into five shares.

(2) Number of additional shares to be issued due to stock split

Total number of issued shares before the stock split	404,824,593 shares
Number of additional shares to be issued due to the stock split	1,619,298,372 shares
Total number of issued shares following the stock split	2,024,122,965 shares
Total number of authorized shares following the stock split	8,000,000,000 shares

3. Partial amendment of Articles of Incorporation

(1) Reason for amendment

In connection with the stock split, a related provision of the Articles of Incorporation was amended effective April 1, 2023 and in accordance with Article 184, Paragraph 2 of the Companies Act.

(2) Details of amendment

The details of the amendment are as follows:

(Amended parts are underlined)

Before the amendment	After the amendment
(Total Number of Shares Authorized to be Issued) Article 6. The total number of shares authorized to be issued by the Company shall be <u>one billion seven hundred and twenty million (1,720,000,000)</u> .	(Total Number of Shares Authorized to be Issued) Article 6. The total number of shares authorized to be issued by the Company shall be <u>eight billion (8,000,000,000)</u> .

4. Other Matters

(1) Method of stock split

There was no change in the amount of stated capital as a result of the stock split.

(2) Dividends

As the stock split took effect on April 1, 2023, the year-end dividend for the fiscal year ended March 31, 2023, which has a dividend record date of March 31, 2023, was paid based on the number of shares before the stock split.

(3) Adjustment of exercise price for stock acquisition rights

Following the above stock split, the per-share exercise price for the stock acquisition rights issued by the Company was adjusted as follows, effective April 1, 2023.

	Yen		U.S. dollars	
	Exercise Price Before Adjustment	Exercise Price After Adjustment	Exercise Price Before Adjustment	Exercise Price After Adjustment
Resolved at the Board of Directors meeting held on September 13, 2019 (for Distribution to Directors and Employees)	¥11,906	¥2,382	\$88.85	\$17.77
Resolved at the Board of Directors meeting held on August 18, 2020 (for Distribution to Directors and Employees)	13,123	2,625	97.93	19.58
Resolved at the Board of Directors meeting held on August 17, 2021 (for Distribution to Directors, Corporate Officers and Employees)	18,503	3,701	138.08	27.61
Resolved at the Board of Directors meeting held on January 26, 2023 (for Distribution to Directors, Corporate Officers and Employees)	17,912	3,583	133.67	26.73

30. CHANGES IN THE METHOD OF PRESENTATION

(Consolidated Statement of Income)

In the fiscal year ended March 31, 2022, "Interest income" 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, 2023.

In order to reflect this change in presentation method, the Company has reclassified the consolidated financial statements for the previous fiscal year. As a result, ¥7,162 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, 2022 has been reclassified into "Interest income" of ¥2,376 million and "Other, net" of ¥4,785 million.

In the fiscal year ended March 31, 2022, "Interest expenses" 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, 2023.

Furthermore, "Provision of allowance for doubtful accounts" 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, 2023.

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, ¥(3,640) million that had been presented in "Provision of allowance for doubtful accounts" and ¥(4,000) 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, 2022 have been reclassified into "Interest expenses" of ¥(983) million and "Other, net" of ¥(6,657) 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, 2023, the balance of property, plant and equipment was ¥1,518,190 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	Shin-Etsu Film Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Co., Ltd.	100.0	March 31	Shin-Etsu Technology Service Co., Ltd.	76.9	February 28
Shin-Etsu Handotai America, Inc.*	100.0	December 31	Shin-Etsu Polymer America, Inc.*	100.0	December 31
Shin-Etsu PVC B.V.*	100.0	December 31	Naoetsu Sangyo Limited	100.0	March 31
Shin-Etsu Engineering Co., Ltd.	100.0	March 31	Shinken Total Plant Co., Ltd.	100.0	February 28
S.E.H. Malaysia Sdn. Bhd.*	100.0	December 31	Saitama Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Handotai Taiwan Co., Ltd.*	70.0	December 31	Shinkoh Mold Co., Ltd.	100.0	March 31
Shin-Etsu Polymer Co., Ltd.	53.3	March 31	Shin-Etsu Magnet Co., Ltd.	100.0	March 31
SE Tylose GmbH & Co. KG*	100.0	December 31	Shin-Etsu Polymer India Pvt. Ltd.*	100.0	December 31
Shin-Etsu Astech Co., Ltd.	99.6	March 31	PT. Shin-Etsu Polymer Indonesia*	100.0	December 31
Shin-Etsu Silicones (Thailand) Ltd.*	100.0	December 31	Shin-Etsu Polymer Singapore Pte. Ltd.*	100.0	December 31
Shin-Etsu Handotai Europe, Ltd.*	100.0	December 31	Shin-Etsu Polymer Shanghai Co., Ltd.*	100.0	December 31
Asia Silicones Monomer Limited*	100.0	December 31	Shin-Etsu Polymer Hong Kong Co., Ltd.*	100.0	December 31
JAPAN VAM & POVAL Co., Ltd.	100.0	March 31	Shin-Etsu Polymer Hungary Kft.*	100.0	December 31
Naoetsu Electronics Co., Ltd.	100.0	February 28	Shin-Etsu Polymer (Thailand) Ltd.*	100.0	December 31
Shin-Etsu Electronics Materials Singapore Pte. Ltd.*	100.0	December 31	Dongguan Shin-Etsu Polymer Co., Ltd.*	100.0	December 31
Shin-Etsu Silicone International Trading (Shanghai) Co., Ltd.*	100.0	December 31	Human Create Co., Ltd.	100.0	March 31
Nagano Electronics Industrial Co., Ltd.	90.0	February 28	Suzhou Shin-Etsu Polymer Co., Ltd.*	100.0	December 31
Shin-Etsu Finetech Co., Ltd.	100.0	March 31	S.E.H. (Shah Alam) Sdn. Bhd.*	100.0	December 31
Shin-Etsu Magnetics Philippines., Inc.*	100.0	December 31	SHIN-ETSU HANDOTAI SINGAPORE PTE. LTD.*	100.0	December 31
CIRES, Lda.*	100.0	December 31	Simcoa Operations Pty. Ltd.*	100.0	December 31
Shin-Etsu Singapore Pte. Ltd.*	100.0	December 31	SE Tylose USA, Inc.*	100.0	December 31
Shin-Etsu Silicone Korea Co., Ltd.*	100.0	December 31	K-Bin, Inc.*	100.0	December 31
Shin-Etsu (Malaysia) Sdn. Bhd.*	100.0	December 31	Shin-Etsu Silicone (Nantong) Co., Ltd.*	100.0	December 31
Nissin Chemical Industry Co., Ltd.	100.0	February 28	Shin-Etsu (Jiangsu) Optical Preform Co., Ltd.*	75.0	December 31
Shin-Etsu MicroSi, Inc.*	100.0	December 31	Kashima Chlorine & Alkali Co., Ltd.	79.0	March 31
Shin-Etsu Silicone Taiwan Co., Ltd.*	93.3	December 31	Kashima Vinyl Chloride Monomer Co., Ltd.	70.6	March 31
Shin-Etsu Silicones of America, Inc.*	100.0	December 31	Shin-Etsu New Materials (Thailand) Limited*	100.0	December 31
Shin-Etsu Silicones Europe B.V.*	100.0	December 31	Shin-Etsu Magnetic Materials Vietnam Co., Ltd.*	100.0	December 31
Shin-Etsu Opto Electronic Co., Ltd.*	80.0	December 31	Shin-Etsu Electronics Materials Taiwan Co., Ltd.*	100.0	December 31
Shin-Etsu Polymer (Malaysia) Sdn. Bhd.*	100.0	December 31	Shin-Etsu YOFC (Hubei) Optical Preform Co., Ltd.*	51.0	December 31
Shin-Etsu Polymer Europe B.V.*	100.0	December 31	Shin-Etsu Polymer Vietnam Co., Ltd.*	100.0	December 31
Shin-Etsu International Europe B.V.*	100.0	December 31	Shin-Etsu Electronics (Malaysia) Sdn.Bhd.*	100.0	December 31
Nihon Resin Co., Ltd.	100.0	December 31	Shin-Etsu (Hong Kong) Co., Ltd.*	100.0	December 31
Naoetsu Precision Co., Ltd.	100.0	February 28	Zhejiang Shin-Etsu High-Tech Chemical Co., Ltd.*	100.0	December 31
Shin-Etsu Skyward Systems .Co., Ltd.	100.0	March 31	KitcheNista Co.,Ltd.	100.0	March 31
Shinano Electric Refining Co., Ltd.	100.0	March 31	Hymix Co., Ltd.*	100.0	December 31
Fukui Environmental Analysis Center Co., Ltd.	100.0	February 28	Shin-Etsu Polymer Taiwan Co., Ltd.*	100.0	December 31

*Overseas subsidiary

23 other consolidated subsidiaries

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Shin-Etsu Chemical Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, 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, 2023, 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 comprised of the following four business segments: Infrastructure Materials, Electronics Materials, Functional Materials and Processing & Specialized Services, and whose main business is the manufacture and sale of related products.</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. Also, sales is one of the key figures which management and users of financial statements focus on.</p> <p>Based on the above, we determined the timing of revenue recognition 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"> • 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. • By inspecting written contracts with major domestic or overseas customers or other documents, we assessed whether the point in time when performance obligations of sales transactions are satisfied is determined on the basis of the contract terms. • We tested appropriateness of the timing 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. We selected sales transactions to be tested from each business segment. • 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 trend analysis of daily sales to consider if there were any unusual fluctuations, and tested the selected sales transactions by agreeing to related source documents such as bill of lading and acceptance report. We selected sales transactions to be tested from each business segment. • We confirmed the balance of accounts receivable-trade directly with specific customers. We selected customers subject to external confirmation procedures in consideration of quantitative and qualitative materiality.

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, 2023 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, 2023

/s/ Noriaki Kenmochi
Designated Engagement Partner
Certified Public Accountant

/s/ Yasuyuki Kitamura
Designated Engagement Partner
Certified Public Accountant

/s/ Tetsuya Kawawaki
Designated Engagement Partner
Certified Public Accountant