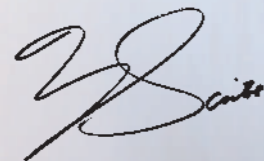


# President's Message

**Extending our growth trajectory and contributing to a sustainable world and the development of industry**



President  
Yasuhiko Saitoh



### Leveraging our strengths to extend our growth path

In the fiscal year ending March 31, 2024 (FY2023), while the sales and earnings decreased from the FY 2022 level, our company extended its growth path as shown below.

The results once again reflect the underlying strength of our line of products, technology, operational system, and our people's professionalism.

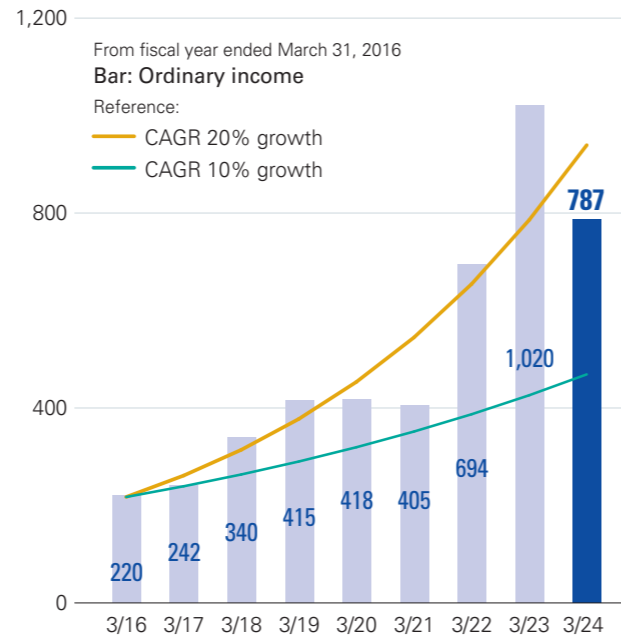
We take pride in contributing to the well-being of our communities and the development of industries, while attaining high marks from the top line to the bottom line and in key financial ratios.

### Dividend Policy

With our enhanced financial strength, we declared an annual dividend of ¥100 per share (after the share split) and announced a 100 billion yen's worth of share buyback.

### Ordinary income

(¥ billion)



For the recent 10 years, we increased the dividend by five times. Under our policy of stable dividends, we stated a dividend payout ratio of around 35% as an aim.

Looking back, the payout ratio over the past 10 years was 31%. We will raise the aim to 40% over time. It represents our sincere appreciation to our shareholders for their understanding and support. As a matter of reference, the payout ratio for FY 2023 was 38.5%.

### Cash Allocation

We have often been asked about the level of cash that the company holds. The cash in hand is intended for large-scale growth initiatives, including merger and acquisition, reserves for economic shocks like the pandemic we experienced four years ago and shareholders remuneration. I believe that we have been a good custodian of the cash, paying attention to our equity spread. We will make good use of the cash for the stated purposes.

### Future Growth

Going forward, we are striving to extend the growth trajectory that we have shown over years. In this regard, we keep our focus on providing our customers with products which make it attainable for them to do what they pursue.

We tirelessly help solve what our customers need to solve. As changes take place fast and what our customers' needs constantly evolve, opportunities present themselves for us.

With a strong market-in mindset and aspiration, we work with our customers more closely than ever. We are determined to be a most reliable supplier to all our customers with best-in-class quality, technology and practice, so that our products will be used more and everywhere.

### Current situation and outlook for each business segment

If I may elaborate on it by laying out our prospects and on-going endeavors in each of our business segments,

#### Infrastructure Business

We will start up a brand new production facility for PVC and caustic soda in US this fall. We apply our latest advanced technologies to the facility. The PVC capacity addition there is 400,000 ton per year, which matches about 30% of worldwide demand growth per annum. PVC products are environmentally benign, and on top of it, we will do our best reducing the carbon footprint in our manufacturing of the products. We will grow the PVC business as such.

#### Electronics Materials Business

The market for semi-conductors will expand at a remarkable rate in three dimensions, i.e., quantitatively, qualitatively and by type. We will stay tuned to capacity increases and product developments. In this regard, we have begun to construct a new facility in Japan for cutting-edge lithographical products. There is an

## President's Message

evolving array of new ways of device making, to which we apply our expertise and ingenuity. As an expert and all round player of semiconductor materials, we will be more instrumental to the semiconductor industries. Electrification of cars and others is rapidly expanding, and the so-called green transformation will not be reversed. To this end, we will exploit the periodic table as much as we can for our customers and industries. As a case in point, we plan to bring our magnet customers with genuinely heavy rare earth free magnets with even higher heat resistance this year.

#### ■ Functional Materials Business

We are bringing more of new products to various markets and are broadening our capabilities for our customers. To this end, we will push the envelope in silicon chemistry, cellulose and other synthesis. We add touch points in industries and markets so that our total addressable markets will be greater. We develop our product offerings with this focus and make contributions in such manner that the more of our products are used, the better the industries and human society become.

#### ■ Processing and Specialized Services

With this group of businesses and operations, we enhance the synergy within our group companies.

I may add that we have launched two new business units. The one deploys novel technologies for GaN devices and the other, by the name of  $\mu$ -Material Machine, offers manufacturing processes, including equipment and materials for various display panels, illumination devices, semiconductor package substrates and so on.

Concerning sustainability, we have recently updated our basic sustainability policy. We are determined to do our part as an essential supplier to human life and industries in the world. Let me explain as follows:

\* The revised Basic Policy on Sustainability is posted on page 70.

#### Carbon-neutral initiatives

In May 2023, we announced a plan to achieve net-zero greenhouse gas (GHG) emissions (Scope 1 and 2), i.e. carbon neutrality, by 2050. The core of this plan is our assiduous efforts to reduce production intensity, increase the capacity to recover the heat emanating from the production process and improve energy efficiency. Over the past 30 years, we have halved our GHG emissions per production unit compared to the 1990 level. Meanwhile, we are increasing our production capacity and growing our businesses. In the process, the absolute amount of energy consumption increases. Achieving carbon neutrality presents a major challenge to a material manufacturer that relies on raw materials and energy for production. Nevertheless, we will unceasingly continue our efforts to boost productivity and conserve energy. For example, some of our manufacturing requires combustion or cracking. There are emerging technologies and initiatives that we should consider for possible implementation, and we will put these options into our plans. Recycling plays an essential role and we will continue to promote it jointly with our customers and the industries. For the energy we use (mostly electricity), we are evaluating various sourcing options and discussing them with suppliers. We are assessing technologies that will economically enable us to transition from natural gas to hydrogen to meet our fuel requirements. We are also evaluating solar power generation and carbon capture and storage projects. All of these must be done without sacrificing cost competitiveness. While maintaining cost competitiveness and responding to customers' requests, we will be innovative and remain open to everything that we can make use of to reach carbon neutrality.

In Japan, the natural gas cogeneration system that we operate at one of our manufacturing facilities was awarded the first prize at the 2023 Cogeneration Awards. We participate in a hydroelectric PPA\* for local production and local consumption. In the meantime, many of our products contribute to lowering GHG emissions and are helping to increase energy efficiency and lessen environmental impacts. The Japanese government has listed 14

areas that will be integral to achieving carbon neutrality and approximately 70% of the sales of our products currently go to these fields. The fields include housing, infrastructure, electric vehicles, digital transformation, and green transformation.

\*PPA stands for power purchase agreement, a type of contract under which the consumer purchases electricity from a power producer at a fixed unit price for a certain period of time.

#### Human resources and diversity

To promote and strengthen our people's professionalism, we invest in our human resources in various ways. In an effort to promote diversity, we held roundtable discussions between our female outside independent director and audit & supervisory board members and female employees. The objective there is to facilitate the exchange of opinions regarding women's empowerment and their work. Given the demographic circumstances in Japan, discussions about diversity tend to be quantitative, focusing on the utilization of women as work force. I am actually hopeful that qualitative discussions of diverse ideas will contribute to the raising of our corporate value.

#### Respecting human rights across the entire supply chain

To build responsible supply chains, we make sure our suppliers know about the Shin-Etsu Group Human Rights Policy, our Basic Procurement Policy, and our CSR Procurement Guidelines. In these policies and guidelines, we call on our suppliers to eliminate discrimination, abide by the labor standards of the International Labor Organization, and not engage in unfair labor practices.

We are also actively taking steps to exclude minerals that have a clear link to conflicts or human rights violations from all the items we procure.

#### Ensuring the safety of workers

The safety of our employees is a No.1 premise of our operation. To achieve zero-accident at our sites, the fundamental thing we do is to eliminate any latent

minor mistakes and incidents. To this end, we rigorously enforce the following three key safety guidelines for action: (1) make sure to abide by the rules and operational procedures; (2) cultivate the sensitivity to risks; and (3) eliminate safety risks swiftly.

#### Governance and risk management

The board of directors is at the center of our corporate governance. It consists of nine directors, five of whom are independent outside directors (including one from the United States and one female director). Along with it, we have the audit & supervisory board. This board consists of four members, three of whom are independent (including two female members). They all participate in discussions and provide suggestions and inputs concerning important matters of the company, including shareholder returns, investments, and sustainability. Given the uncertainty in world affairs and the economy, risk management is crucial. We make a point of assessing country risks and other factors in capital investments and raw material procurement. We are strengthening information security and seriously working on countermeasures against cyber-attacks and data leakage.

#### Being a good partner for society

To continue to do what we have been able to do for our customers, our shareholders and our communities, we must continue to grow. We will remain focused on our customers and their needs to be relevant to them, will remain committed to good governance to be relevant to our shareholders and will remain responsible to be relevant to our communities.

I sincerely thank our shareholders for their confidence, our customers for their partnership and our entire Shin-Etsu team for their dedication to our operations.

## Message from Chairman of the Board

### Technology and corporate governance are the cornerstones of growth

Technology is the cornerstone of manufacturers. There is no business without technology, and it is impossible to compete on a global level without exceptional technology. In our nearly 100-year history, the Shin-Etsu Group has always endeavored to improve and innovate its technologies. We have thoroughly implemented this approach in all of our businesses, including our core polyvinyl chloride (PVC) resins, semiconductor silicon, and silicones businesses.

The establishment of the G-Committee, a committee structure for rationalization, in 1992 further enhanced the technological strengths of Shin-Etsu Chemical. The committee's initial task was to streamline and improve productivity at plants, and after becoming chairman of the committee in 2004, I focused on the key theme of creating technological innovations based on ideas and principles that were not bound by precedent or conventional wisdom. The activities of the committee expanded beyond Shin-Etsu Chemical to include Shin-Etsu Handotai and other group companies. The distinctive feature of the G-Committee's activities is that it has continued to contribute to corporate earnings not by streamlining operations just once, but through ongoing efforts year after year. In Shin-Etsu Chemical alone, the committee has worked on and implemented over 25,000 themes. In advancing its activities, the committee also uses Six Sigma methods and is currently incorporating the latest technologies, such as AI. We are working to further strengthen our competitiveness

by putting innovative technologies to practical use, achieving labor and energy savings through extensive automation, and improving productivity.

Technological strength translates to quality. Contributing to our unrivaled quality that keeps competitors at bay are our abilities to develop products that meet customer quality requirements, to stably mass-produce products, to not only meet standards but also to minimize quality variation within standards, and to rigorously evaluate and control quality prior to shipment. This unrivaled quality enhances the non-price competitiveness of our products.

To compete in the global marketplace, we must boost our cost competitiveness. To achieve this, we must use resources, raw materials, and energy thoroughly, efficiently, and without waste. This is also essential for preserving the global environment and for ensuring sustainable growth. Since the 1990s, the Shin-Etsu Group has worked to maximize resource and energy use efficiency. As a result, our greenhouse gas emission per production unit has been reduced by half compared to 1990, and we continue to focus on further reducing emissions.

In May 2023, the Shin-Etsu Group formulated and announced its plan to become carbon neutral by 2050. Achieving carbon neutrality is a challenge for manufacturers, which use resources and energy to produce goods. I believe it is a challenge worth taking on, precisely because it is a difficult task. We will take on this challenge with the technological strength

we have honed over the years, our track record of consistently setting and achieving ambitious targets, and our strong will to overcome difficulties.

Former Representative Director and Chairman Dr. Kanagawa understood the importance of corporate governance for ensuring sustainable growth, and has been implementing measures to this end. One such measure is the appointment of independent outside directors. In 2001, he invited Frank Popoff, former Chairman and CEO of The Dow Chemical Company (US), to serve as an outside director, with the aim of having someone from outside the company take a hard look at executive management and give us honest advice. Since then, we have continued to enhance the function to oversee directors who are responsible for execution by inviting leading figures from various fields to serve as outside directors. In addition to the Board of Directors, outside directors have attended important meetings such as the Managing Directors' Meeting, which deliberates on a wide range of business matters, and have provided valuable suggestions and opinions on issues including shareholder return, investment, ESG, and carbon neutrality.

We will continue to focus on developing our technological strengths and ensuring proper corporate governance in order to become a company that grows in perpetuity.



Representative Director-Chairman of the Board Meeting

#### Fumio Akiya

(In charge of Semiconductor Materials and Technologies Representative Director & President of Shin-Etsu Handotai Co., Ltd.)

# Value Creation Process

By harnessing its strengths in the tripartite teamwork manufacturing of sales, development, and production, the Shin-Etsu Group helps solve societal issues by creating unrivaled value with materials indispensable to industry and people's lives.

## Sources of Our Competitiveness

P.20



Financial Capital



Manufacturing Capital



Human Capital



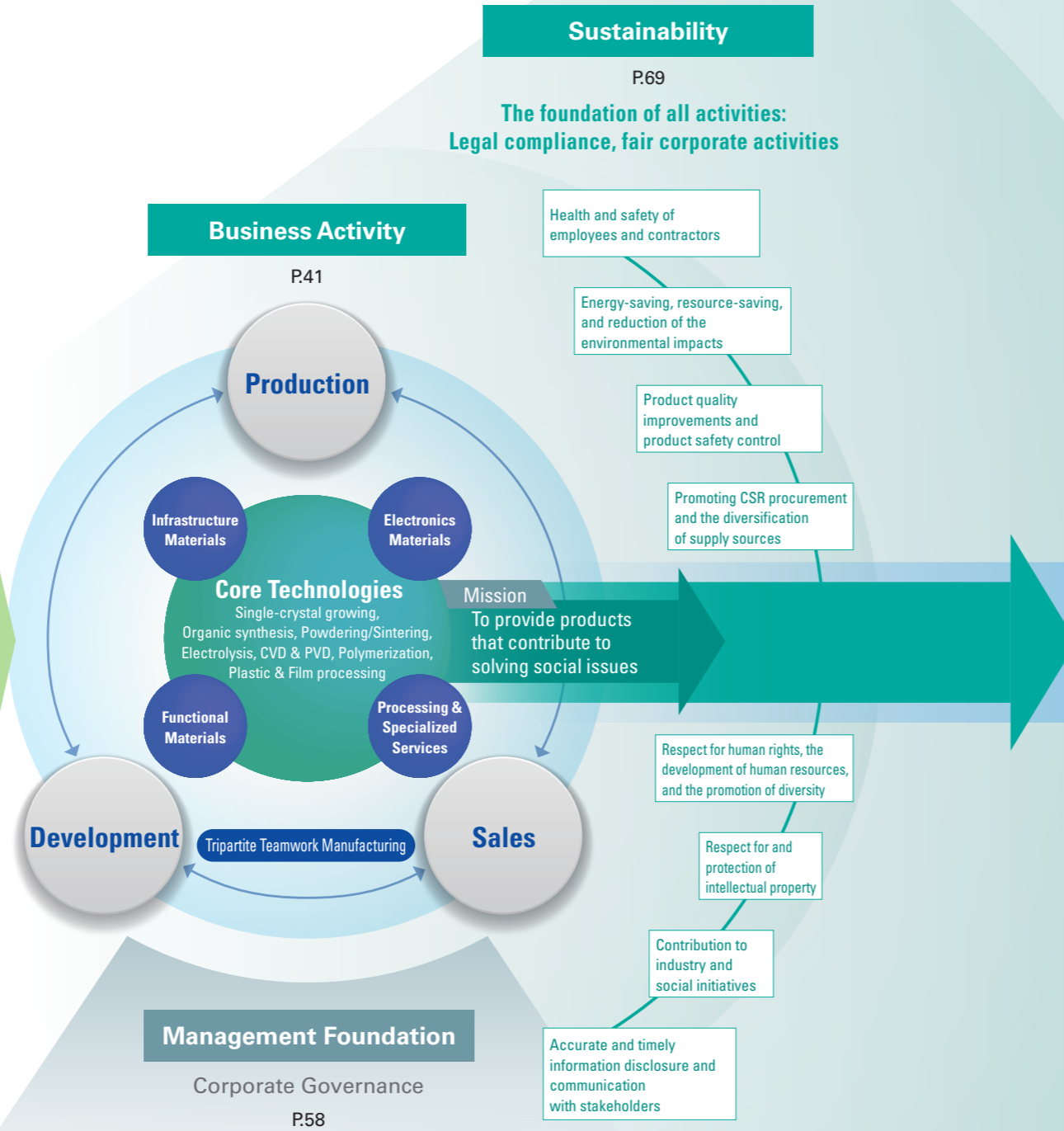
Intellectual Capital



Social and Relationship Capital



Natural Capital



## Value Created

As of March 31, 2024

Operating income	¥701.0 billion
Net income	¥520.1 billion
ROIC	19.4%
ROE	12.8%
Cash dividend per share	¥100
Total shareholder return over the past five years	375% (TOPIX196%)
Market capitalization	March 31, 2014 ¥2,548.6 billion ↓ March 31, 2024 ¥13,179.1 billion
Moody's Long-term Ratings	Aa3
Sales composition ratio of environmental products*1	approx. 70%
Greenhouse gas emission intensity (compared with FY1990)	43.0% reduction
Composition ratio of overseas sales	78.4%
Intangible asset value ratio*2	66.4%

\*1 Products that contribute to the 14 areas identified by the Japanese government in 2021 as being essential to achieving the goal of carbon neutrality  
\*2 An indicator for measuring the value of intangible assets in capital markets  
Intangible asset value ratio = (intangible fixed assets [book value] + market capitalization - net assets [book value]) ÷ market capitalization

## Vision

### Contribution to the Earth's future

#### Digitalization

**AI, IoT, 5G, Metaverse**  
Semiconductor silicon, silicones, optical fiber preforms, low-dielectric resins, etc.



#### Smart infrastructure

**Infrastructure developments**  
PVC, cellulose derivatives, silicones



#### Efficiency improvement

**Robots, Industrial motors**  
Semiconductor silicon, rare earth magnets, silicones, etc.



#### Health enhancement

**Pharmaceutical materials, Materials for medical apparatus and equipment**  
Cellulose derivatives, POVAL, silicones, rare earth magnets



#### Food, Sanitation

Synthetic pheromones, cellulose derivatives, photocatalysts



#### Environmental contribution

##### Electric vehicles

Rare earth magnets, anode materials for lithium-ion batteries, silicones, etc.



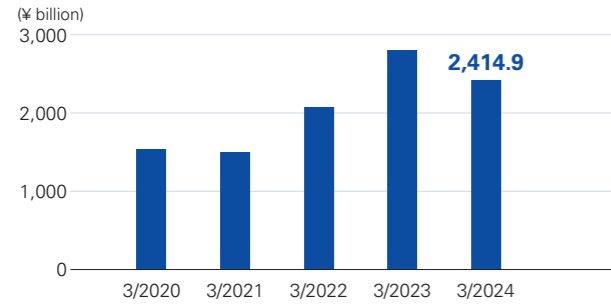
##### Energy-efficient home appliances, Renewable energy

Rare earth magnets, semiconductor silicon, silicones, LED packaging materials, etc.



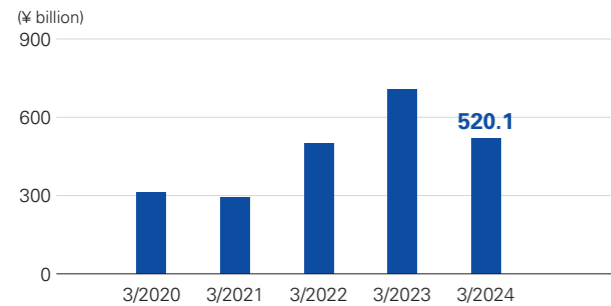
# Financial Highlights

## Net sales



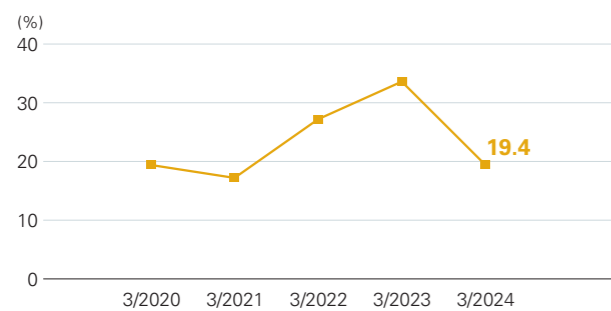
Despite our efforts to maintain price levels, consolidated net sales for the fiscal year ended March 31, 2024 (FY2023) decreased by 14.0% from the previous fiscal year amid continued inventory adjustments and softening market conditions due to the sluggish Chinese economy.

## Net income attributable to owners of parent



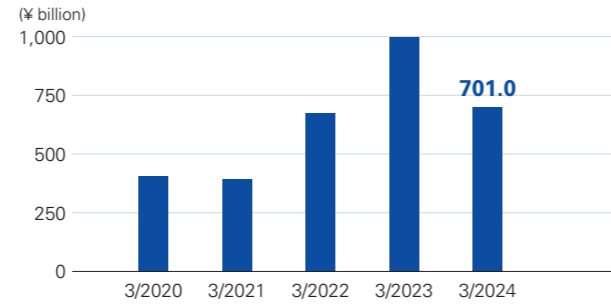
Net income attributable to owners of parent in FY2023 fell by 26.6% from the previous fiscal year due to a decrease in operating income.

## ROIC



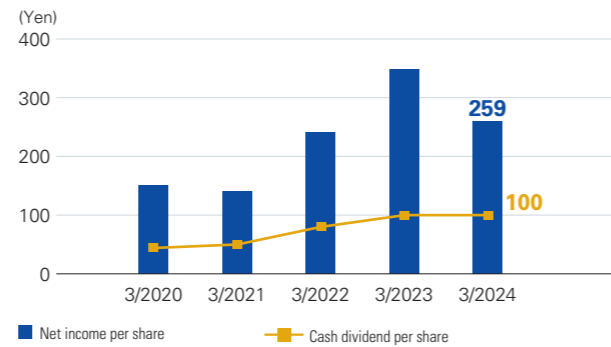
ROIC for FY2023 fell 14.2 points from the previous fiscal year due to a decrease in operating income after taxes.

## Operating income



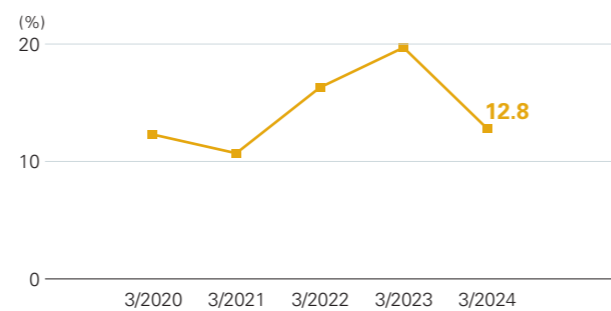
Consolidated operating income for FY2023 decreased 29.8% from the previous fiscal year. Due to softening market conditions, the Infrastructure Materials and Functional Materials businesses declined sharply, while the Electronic Materials business declined by only 9.7%, reflecting signs that the semiconductor market has bottomed out.

## Net income per share/Cash dividend per share (Note)



In accordance with our basic policy of aiming for stable dividends with a payout ratio of around 35% as a guide, the annual dividend for FY2023 was the same amount as the previous year (payout ratio of 38.5%).

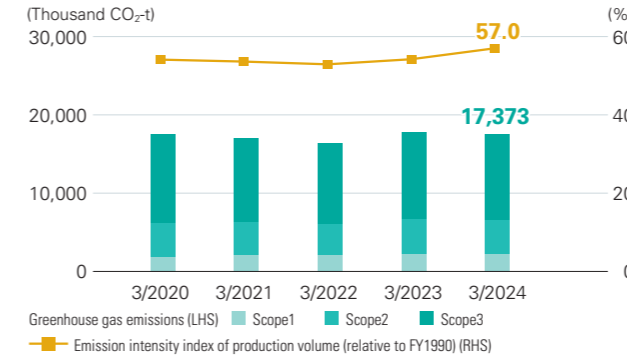
## ROE



ROE for FY2023 fell 6.9 points from the previous fiscal year due to a decrease in net income attributable to owners of parent.

# Non-Financial Highlights

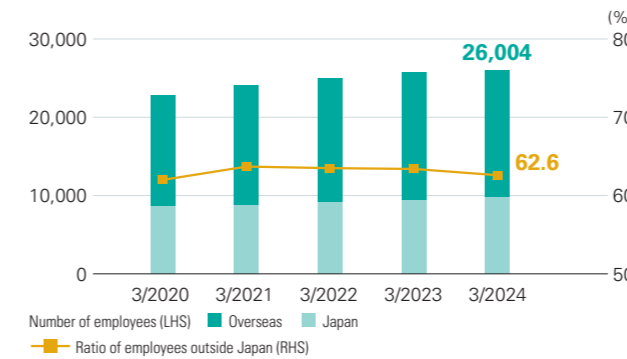
## Greenhouse gas emissions/Emission intensity index of production volume\*



We are working to reduce the greenhouse gas emission intensity index to 45% of our FY1990 level by 2025 and achieve net-zero greenhouse gas emissions (Scope 1 and 2) by 2050.

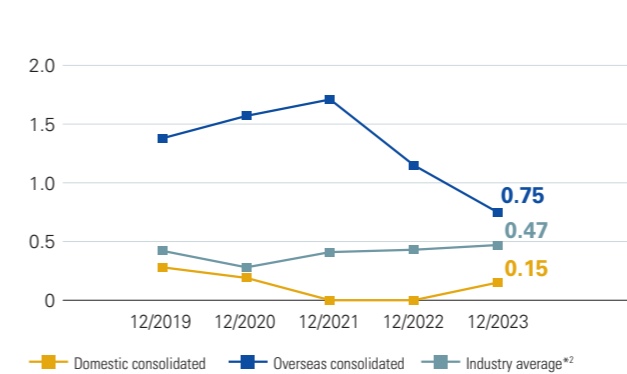
\*Emission intensity index of production volume reflects Scope 1 and Scope 2.

## Number of employees/Ratio of employees outside Japan



In accordance with international labor standards, each year we survey our consolidated subsidiaries to ensure compliance with laws and regulations, making sure that we respect human rights and properly manage labor and employment in accordance with the laws and regulations of each country and region.

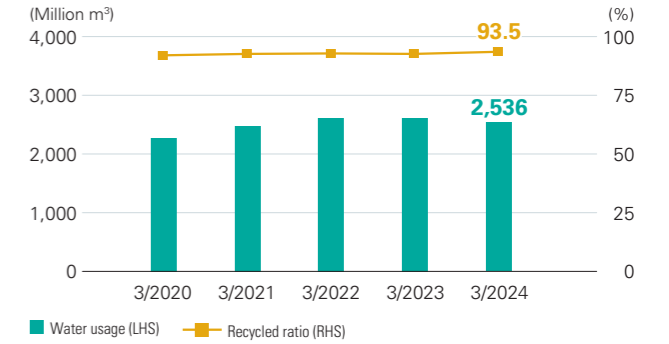
## Lost-time accident rate\*1



\*1 The lost-time accident rate is calculated per calendar year.

\*2 Averages for the chemical industry in Japan as compiled by the Japan Chemical Industry Association (JCIA).

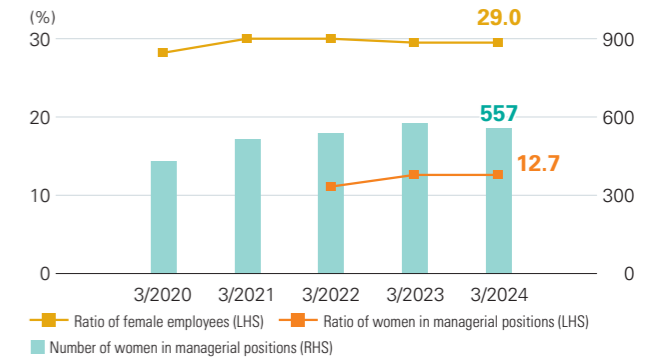
## Water usage\*/Recycled ratio



Since manufacturing products requires a large amount of water, we have set a target of "reducing water withdrawal intensity by an annual average of 1%," and are thoroughly promoting the recycling of water and making effective use of rainwater, etc.

\*Total quantity of water withdrawal and recycled water

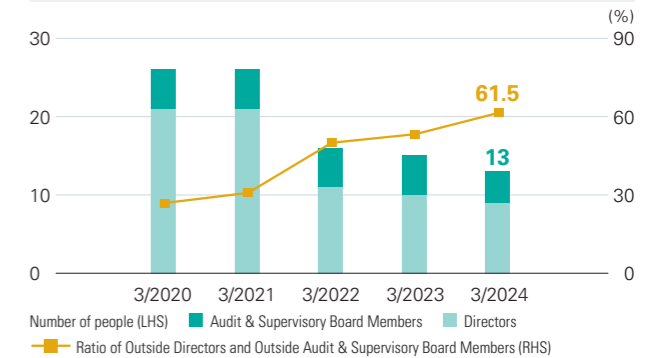
## Ratio of female employees/Number and ratio of women in managerial positions\*



To promote the advancement of women, we have set goals to "increase the hiring ratio of women in administrative positions to 40% and in engineering positions to 10%" and "quadruple the number of women in managerial positions, including junior managers, compared to FY2014."

\*Figures for ratio of women in managerial positions calculated starting from FY2021

## Number of Directors and Audit & Supervisory Board Members/ Ratio of Outside Directors and Outside Audit & Supervisory Board Members



In FY2021, we substantially downsized the Board of Directors and raised the ratio of Outside Directors and Outside Audit & Supervisory Board Members to improve our ability to promptly respond to changes in the business environment and strengthen our monitoring functions. We appointed one woman as Outside Director and two women as Outside Audit & Supervisory Board Members.

(Note) On April 1, 2023, the Company executed a 5-for-1 stock split of its common stock. "Net income per share" and "Cash dividends per share" are calculated based on the number of shares after the stock split from the fiscal year ended March 31, 2020.