President's Message

Chapter 1

We will make steady progress toward enhancing corporate value

— Increase earnings per share, lower the cost of equity, and raise the growth —

President
Yasuhiko Saitoh

To our shareholders,

In the fiscal year ending March 31, 2026 (FY2025), we extended our growth path in the Electronics Materials segment, while we coped with strong headwinds in the Infrastructure Materials segment. Against our primary performance objective of achieving a year-on-year growth in both sales revenue and earnings, we did not increase the earnings for FY 2025. For the current fiscal year, our priority is to achieve a meaningful growth in the earnings. In this regard, the segmental result for FY2025 tells us what to do.

Message

President's Message

The markets for polyvinyl chloride, which is a core business line in the Infrastructure Materials segment, experienced a significant price decay last year. Price correction is our No.1 task, and the initiatives that we have been taking since the beginning of this year are bearing fruit. In the Electronics Materials segment, we are capturing every opportunity in the remarkable growth of the semiconductor markets as it is driven by the historic rise of AI. In the Functional Materials segment, increases in our value-added product groups have gained momentum, leveraging our customer-centric technical strength. We will accelerate this progress. In the Processing & Specialized Services segment and throughout our lines of business, we will continue to increase our product offerings, particularly in semiconductor-related applications. We see enormous opportunities as AI proliferates.

In sum, while selling numerous products around the world, we deliver a value set to our customers. We do our business based on the value we deliver.

In FY 2025, we demonstrated our commitment to our shareholders remuneration and capital management. We declared dividends of ¥106 per share and implemented a 500 billion yen's worth of share buyback. As a matter of reference, the total payout ratio for FY 2025 was 147 %. The cash in hand is intended for large-scale growth initiatives, including merger and acquisition, reserves for economic shocks, and shareholders remuneration. We will make good use of the cash for the stated purposes. All these actions represent our sincere appreciation to our shareholders for their understanding and support.

The value of the company comes down to increasing earnings per share, lowering the cost of shareholders' equity and raising the growth. We will continue to advance our businesses in a manner that supports these three key elements. Going forward, we will further differentiate ourselves in every aspect of our business and operation. To overcome headwinds, differentiation is essential. In doing so, we certainly 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.

To extend and expand what we have been able to do for our customers, our shareholders and our communities, I reiterate that 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.

President
Yasuhiko Saitoh

Message

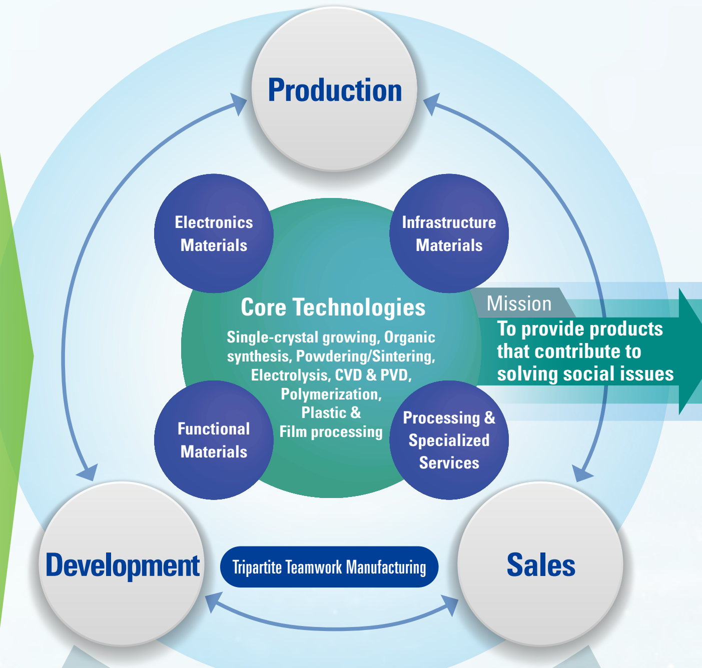
Value Creation Process

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

- Financial Capital
- Manufacturing Capital
- Human Capital
- Intellectual Capital
- Social and Relationship Capital
- Natural Capital

Business Activity



Management Foundation

Corporate Governance

Sustainability

- The foundation of all activities: Legal compliance, fair corporate activities
- Health and safety of employees and contractors
- Energy-saving, resource-saving, and reduction of the environmental impacts
- Product quality improvements and product safety control
- Promoting CSR procurement and the diversification of supply sources
- Respect for human rights, the development of human resources, and the promotion of diversity
- Respect for and protection of intellectual property
- Contribution to industry and social initiatives
- Accurate and timely information disclosure and communication with stakeholders

Value Created

As of March 31, 2026

Operating income	¥635.2 billion
Net income attributable to owners of parent	¥474.4 billion
ROIC	14.6%
ROE	10.4%
Cash dividend per share	¥106
Total shareholder return over the past five years	181% (TOPIX202%)
Market capitalization	March 31, 2016 ¥2,480.9 billion → March 31, 2026 ¥11,621.1 billion
Moody's Long-term Rating	Aa3
Sales composition ratio of environmental products*1	approx. 70%
Greenhouse gas emission intensity (compared with FY1990)	45.3% reduction
Composition ratio of overseas sales	78.6%
Intangible asset value ratio*2	60.3%

Vision

Digitalization

AI, IoT, 5G/6G, Metaverse
Semiconductor silicon, photoresists, photomask blanks, silicones, optical fiber preforms, low-dielectric resins, etc.

Smart infrastructure

Infrastructure developments
PVC, cellulose derivatives, silicones

Efficiency improvement

Robots, Industrial motors, physical AI
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.

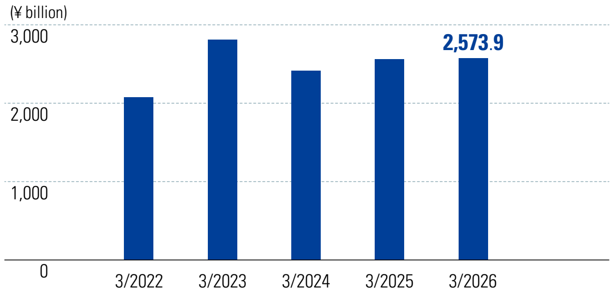
Energy-efficient home appliances, Renewable energy
Rare earth magnets, semiconductor silicon, silicones, LED packaging materials, etc.

*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

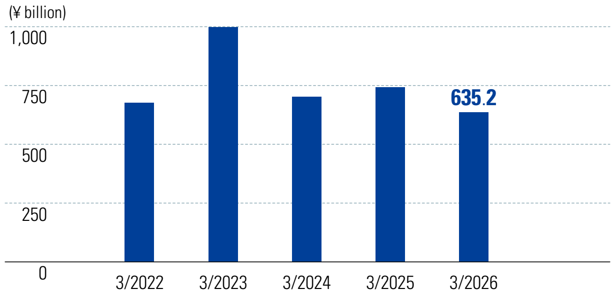
Financial Highlights

Net sales



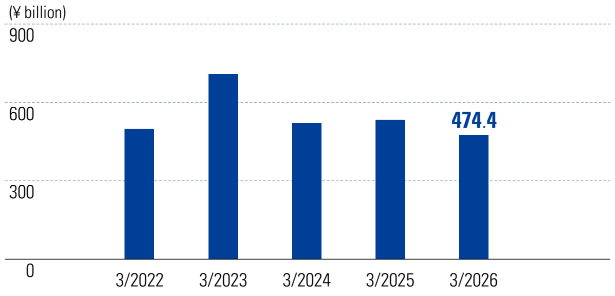
In the fiscal year ended March 31, 2026 (FY2025), consolidated net sales increased by 0.5% from the previous fiscal year amid a boom in AI-related demand, driven by strong sales of silicon wafers, photoresists, photomask blanks, and other semiconductor materials.

Operating income



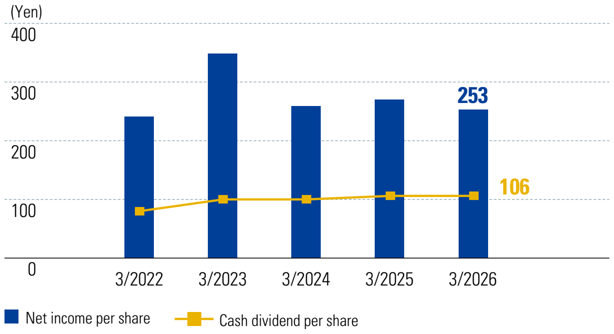
Consolidated operating income for FY2025 decreased by 14.4% from the previous fiscal year. This was mainly due to a decrease in operating income of 43.4% in the Infrastructure Materials business caused by an ongoing slump in vinyl chloride prices in Asia and other overseas markets.

Net income attributable to owners of parent



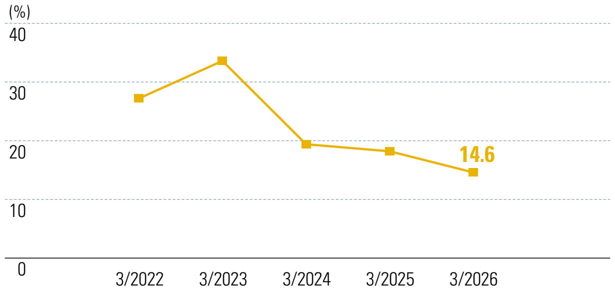
Net income attributable to owners of parent in FY2025 decreased by 11.2% from the previous fiscal year, mainly due to a decrease in operating income in the Infrastructure Materials business.

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



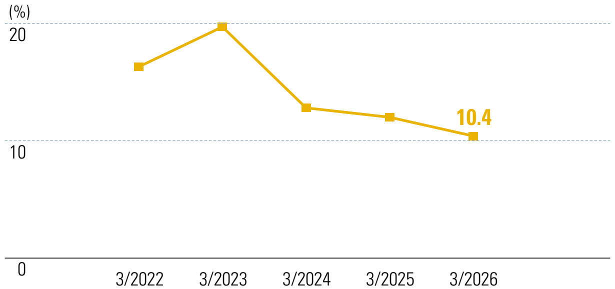
In accordance with our basic policy of aiming for stable dividends with a payout ratio of around 40% as a medium- to long-term guide, the annual dividend per share for FY2025 will remain the same as the previous fiscal year (dividend payout ratio of 41.9%).

ROIC



ROIC for FY2025 fell 3.6 points from the previous fiscal year due to an decrease in operating income after taxes. However, since the cost of capital in FY2025 amounted to approximately 8%, we were able to achieve capital returns exceeding the weighted average cost of capital (WACC).

ROE

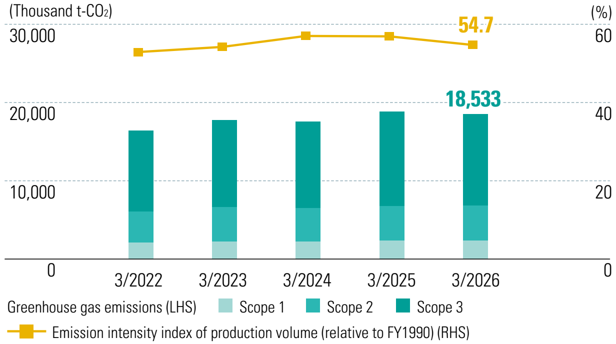


ROE for FY2025 fell 1.6 points from the previous fiscal year due to a decrease in net income attributable to owners of parent, despite a decrease in equity capital resulting from the implementation of a share buyback (500 billion yen). However, since the cost of capital in FY2025 amounted to approximately 8%, we were able to achieve capital returns exceeding the cost of capital.

(Note) On April 1, 2023, the Company executed a 5-for-1 stock split of its common stock. "Net income per share" and "Cash dividend per share" are calculated based on the number of shares after the stock split from the fiscal year ended March 31, 2022.

Non-Financial Highlights

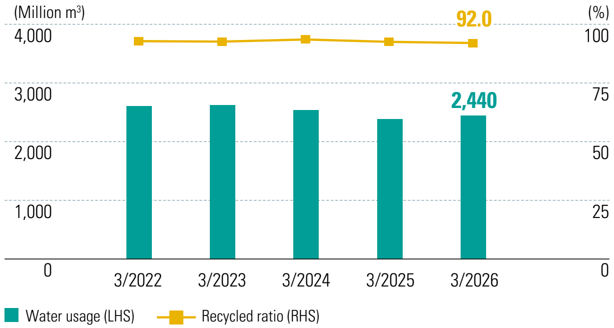
Greenhouse gas emissions/Emission intensity index of production volume*



We worked to reduce the greenhouse gas emission intensity index to 45% of our FY1990 level by FY2025. Currently, we have been working to achieve net-zero greenhouse gas emissions (Scope 1 and 2) by 2050.

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

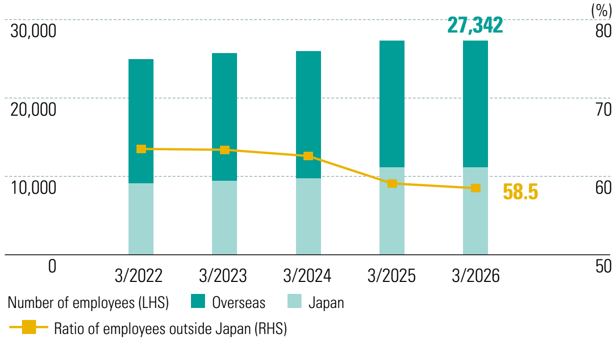
Water usage*/Recycled ratio



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.

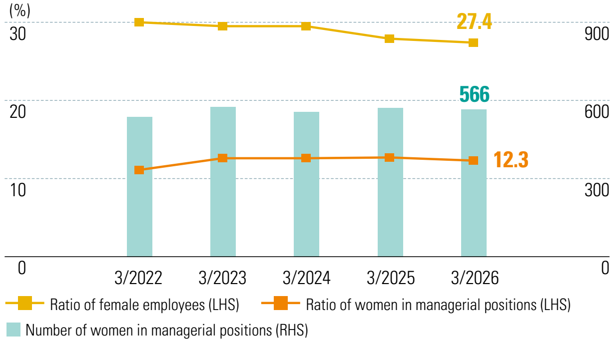
*Total quantity of water withdrawal and recycled water

Number of employees/Ratio of employees outside Japan



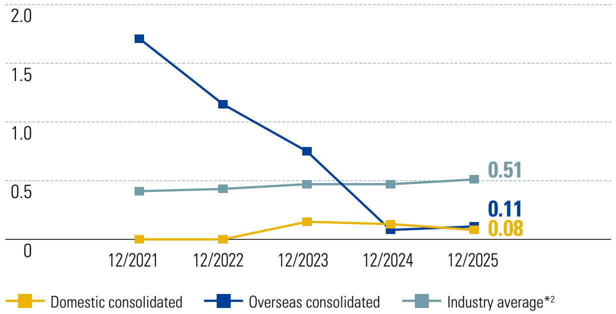
In accordance with international labor standards, each year we survey our consolidated subsidiaries to ensure compliance with laws and regulations, making sure that we respect human rights and properly manage labor and employment in accordance with the laws and regulations of each country and region.

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



To promote the advancement of women, in FY2025, we 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." (Scope: employees hired by Shin-Etsu Chemical and working in Shin-Etsu Group companies)

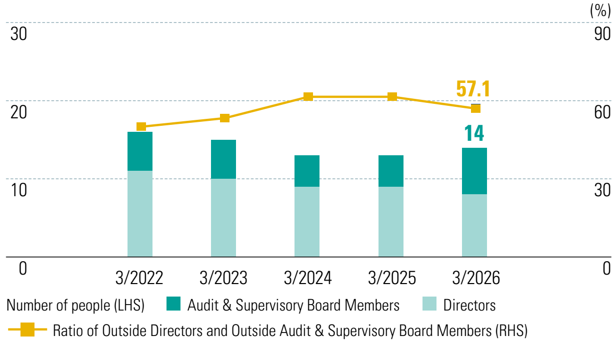
Lost-time accident rate*1



*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)

Number of directors and audit & supervisory board members/ ratio of outside directors and outside audit & supervisory board members



The Company continues to strengthen its corporate governance system with an emphasis on external perspectives, for example by inviting leading figures from various fields to serve as Outside Directors. As of June 26, 2026, we have appointed two women as Outside Directors and two women as Outside Audit & Supervisory Board Members.