Chapter 2
Enhancing Value Creation

Chapter 1
Enhancing Corporate Value

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Chapter 4
Reducing the Cost of Capital

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Chapter 3
Accelerating Growth

Chapter 4
Reducing the Cost of Capital

To reduce our cost of capital, we are undertaking numerous initiatives described in Chapters 1 through 3 (see page 41).
In addition to these initiatives, this chapter introduces our sustainability management measures, including corporate governance, aimed at reducing the cost of capital, particularly the cost of equity. Through sustainability management, we aim to mitigate the risks and uncertainties perceived by our shareholders and investors, thereby lowering the cost of equity and ultimately enhancing corporate value.

Initiatives to Reduce the Cost of Capital 41
Shin-Etsu Group's Sustainability 42
Legal Compliance 47
Environment 48
Social 52
Governance
- Corporate Governance Approach and Initiatives 55
- Assessment of Board of Directors Effectiveness 56
- Policy on Cross-shareholdings 57
- Management 58
- Activity Status of Outside Directors and Outside Audit & Supervisory Board Members 60
- Risk Management 61
- Information Security 62

Initiatives to Reduce the Cost of Capital

Having established reducing the cost of capital as a critical management challenge aimed at enhancing corporate value, we are advancing initiatives from various perspectives, including: (1) Growth and stabilization of business performance, (2) Solid financial foundation, (3) Sustainability, (4) Business risk management, (5) Measures for growth, and (6) Shareholder returns. Through these initiatives, we aim to reduce the cost of capital and achieve sustainable corporate value enhancement by mitigating risks and uncertainties from the perspective of our shareholders and investors. In this chapter we will focus in particular on perspective (3).

1	**Growth and stabilization of business performance**	Aiming for revenue and earnings growth each fiscal year, and solidifying the business portfolio that are less susceptible to economic fluctuations
2	**Solid financial foundation**	Generating stable cash flow
3	**Sustainability**	A highly independent Board of Directors, appropriate information disclosure, dialogue with shareholders and investors, and initiatives on legal compliance and the environment
4	**Business risk management**	Diversifying the business portfolio and supply chain to avoid dependence on specific products or markets (diversification of raw material procurement, risk-aware supply network), and adapting to regulatory requirements and intensifying competition
5	**Measures for growth**	Focus on highly profitable investments, and improving capital efficiency
6	**Shareholder returns**	Clarify stable dividends policy and payout ratio, and implement flexible share buybacks

Mitigating risks and uncertainties perceived by our shareholders and investors

Shin-Etsu Group's Sustainability

For more information, please see the "Sustainability Management" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_foundation/management/

The Shin-Etsu Group has established a Basic Sustainability Policy based on its Business Principle and is working to address nine key sustainability issues. In May 2024, we revised our Basic Sustainability Policy following approval by the Managing Directors' Meeting and the Board of Directors attended by all directors, audit & supervisory board members and corporate officers.

Participating in the UN Global Compact

In November 2010, the Group joined the UN Global Compact. Life in society has become more complex and diverse in recent years, and the social responsibilities of enterprises have grown. The Group remains firmly committed to the Business Principle shown on the right. At the same time we respond flexibly to changes in the social and economic environment.

Furthermore, the Group has also been participating in the Global Compact Network Japan (GCNJ) since November 2010. The Group joins subcommittees, such as the Environmental Management Subcommittee, ESG Subcommittee, Human Rights Due Diligence Subcommittee, and Human Rights Education Subcommittee to use the information gained on the latest development of sustainability to promote the Group's Sustainability.

The Group, as the first in Japan, signed a document to support GCNJ's Tokyo Principles for Strengthening Anti-Corruption Practices in February 2018.

Evaluation from Outside the Company

The Company is incorporated in the Sustainability indexes listed on page 66 (Corporate Information). We also disclose environmental risks, opportunities, and impacts through CDP*. In FY2025, our CDP climate change evaluation was A-.

Shin-Etsu Group's Sustainability

Business Principle

The Group actively conducts in sustainable business practices and creates the value sought by society and industry through the provision of unrivaled key materials technologies.

Basic Sustainability Policy

Revised May 2024

The Shin-Etsu Group will:

1. Do our best to increase the Group's corporate value through sustainable growth and make multifaceted contributions to society.
2. Carry out all of our company activities by always placing the utmost priority on safety.
3. Expand those businesses that contribute to the reduction of greenhouse gas emissions.
4. Maximize the efficiency of product development and manufacturing, and contribute to higher efficiency of society by supplying our products thus produced.
5. Engage in business activities while taking biodiversity into account and seeking harmony with the global environment.
6. Strive to respect human rights, assure equality in employment opportunities, and support the self-fulfillment of our employees.
7. Appropriately disclose information in a timely manner.
8. Carry out healthy, trustworthy, transparent corporate activities in compliance with laws and regulations based on the integrity of the Group's ethical values.

Basic Sustainability Policy

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 impact
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

*An international environmental non-profit organization established in the UK in 2000 that operates a global environmental information disclosure system for companies and local governments. The annual environmental information disclosure and evaluation process is widely recognized as an international standard for corporate environmental information disclosure.

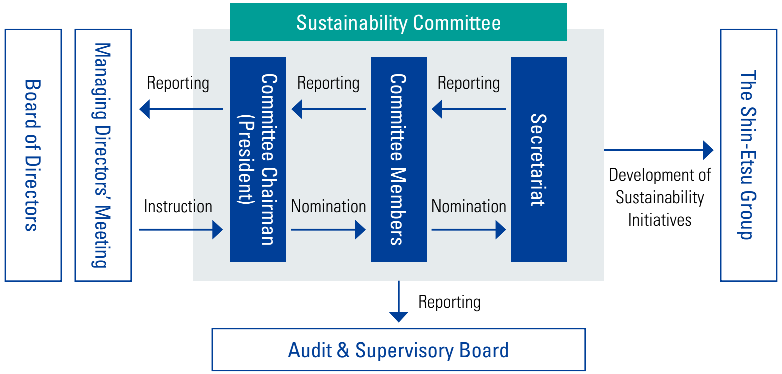
Shin-Etsu Group's Sustainability

Governance Related to Sustainability

The Shin-Etsu Group views the implementation of its Business Principle and the making of contributions that benefit shareholders, investors, customers, business partners, local communities, employees, and all other stakeholders as its social responsibility.

To fulfill this responsibility, we have established the Basic Sustainability Policy, the Shin-Etsu Group Human Rights Policy, and various internal regulations related to the environment, safety, and similar areas, and are carrying out activities accordingly.

To promote sustainability activities in all aspects of our corporate activities, we have formed a Sustainability Committee consisting of approximately 60 members, including our directors, corporate officers, and department managers, as well as sustainability managers from Group companies, with the president of Shin-Etsu Chemical serving as the chairman. The Committee deliberates on the establishment and revision of important policies and regulations related to sustainability. The Committee also has subcommittees, including the Climate Change Subcommittee and the Human Rights Due Diligence Subcommittee, which perform specific practical tasks. To ensure that the Committee's sustainability initiatives are appropriately monitored, they are reported to the Board of Directors and to the Managing Directors' Meeting, which is composed of all Directors, Audit & Supervisory Board Members and corporate officers and deliberates on all aspects of business operations.



In the fiscal year ended March 31, 2026, the Shin-Etsu Chemical Group, working primarily through the Sustainability Committee and the individual business divisions, continued to implement its plans to achieve carbon neutrality by 2050, and addressed a wide range of important sustainability issues, including thorough compliance with laws and regulations, improvement of product quality and safety, and respect for human rights.

List of executives in charge of sustainability initiatives

As of June 26, 2026

Position	Name	Current Positions (related to Sustainability)	Key Issues about Sustainability and Other Matters
Representative Director, Chairman of the Board Meeting	**Fumio Akiya**	In charge of Technologies	Key Issue: Product quality improvements and product safety control
Representative Director-President	**Yasuhiko Saitoh**	Chairman of Sustainability Committee Chairman of Risk Management Committee	
Managing Corporate Officer	**Toshiya Akimoto**	Vice Chairman of Sustainability Committee In charge of Business Auditing General Manager of Office for Digitization and Digitalization	Key Issue: Respect for and protection of intellectual property (Information Security) Corporate Governance
Managing Corporate Officer	**Fumio Arai**	In charge of Purchasing	Key Issue: Promoting CSR procurement and the diversification of supply sources
Managing Corporate Officer	**Shigeyoshi Netsu**	In charge of Patents	Key Issue: Respect for and protection of intellectual property
Corporate Officer	**Toshiyuki Kasahara**	In charge of Finance & Accounting and General Affairs	Corporate Governance (Fair tax payment, etc.)
Corporate Officer	**Ichiro Onozawa**	In charge of Environmental Control & Safety Relations	Key Issue: Health and safety of employees and contractors Key Issue: Energy-Saving, Resource-Saving, and Reduction of the Environmental Impact
Corporate Officer	**Satoshi Onishi**	In charge of Public Relations	Accurate and timely information disclosure and communication with stakeholders
Corporate Officer	**Norihiko Oyagi**	In charge of Legal Affairs General Manager, Personnel & Labor Relations	The foundation of all activities: legal compliance, fair corporate activities, Respect for human rights, the development of human resources, and the promotion of diversity

Note: For company-wide corporate governance systems that are not limited to sustainability, please refer to "Corporate Governance."

Shin-Etsu Group's Sustainability

Identifying Key Issues (Materiality)

In FY2015, the Sustainability Committee identified "key sustainability issues" that the Shin-Etsu Group needs to focus its efforts on in particular. Subsequently, in December 2018, all of our departments and major domestic Group companies reviewed the key issues and their importance, which were then reviewed again by the Sustainability Committee. As a result, we decided to carry on with the key issues we identified in 2015. We continue to view legal compliance and fair corporate activities as the foundation of all of our activities, and focus on these nine key issues.

Going forward, the Sustainability Committee will continue to review the key issues and their importance as necessary based on the status of the Group's corporate activities, taking into account changes in the external environment in which the Group operates and trends in sustainability in Japan and overseas.

Materiality Identification Process

Step 1 Clarify key issues

In all of Shin-Etsu Chemical's divisions and major group companies in Japan, key issues were clarified by the following three steps: (1) review and organize key stakeholders and classify them as customers, shareholders and investors, employees, business partners, local communities, etc.; (2) identify key sustainability issues with reference to the central themes of ISO 26000, an international standard that defines corporate social responsibility; and (3) score the importance of each key issue to the Group and its stakeholders, taking into account the Group's sustainable growth and its impact on society.

Step 2 Prioritize importance of key issues and organize the issues

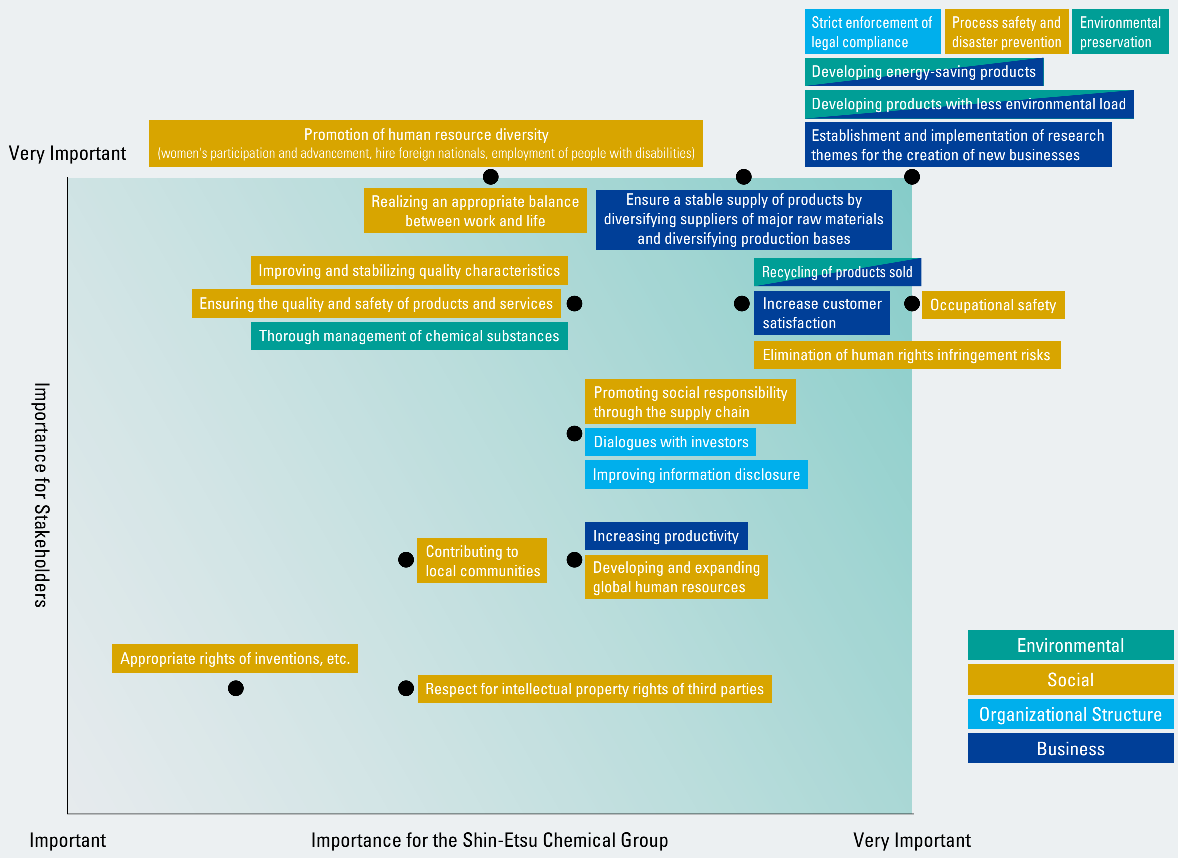
Based on the key issues and their importance as submitted by the divisions and companies, the Sustainability Committee reorganized them based on two axes: importance to the Group and importance to stakeholders.

Step 3 Conduct a hearing with Outside Directors

We conducted interviews with all Outside Directors regarding the reorganized key issues and their positioning. As a result, we received the following suggestions: (1) Compliance with laws and regulations is related to all issues; (2) All of the key issues listed are equally important to the Group and difficult to rank; and (3) We should also state what our goals are.

Step 4 Review by the Sustainability Committee and final decision by the Managing Directors' Meeting

Based on the suggestions of the Outside Directors, the Sustainability Committee reviewed the issues once again, and the nine key issues were identified following deliberations by the Managing Directors' Meeting, a decision-making body for business execution. In addition, it was decided that all these important issues would be tackled equally, in no particular order.



Shin-Etsu Group's Sustainability

Strategy, Metrics, and Targets

While key issues facing the global environment and society pose risks that threaten the sustainable growth of the Shin-Etsu Group, our initiatives to address them will create new business opportunities. The Group therefore strives to identify the risks and opportunities associated with these key issues and seeks to mitigate the risks. Meanwhile, by providing products that contribute to solving social issues, including global environmental issues, we aim to simultaneously create a sustainable society and achieve sustainable growth for the Group.

The Group has also established metrics and targets to appropriately address the risks and opportunities it has identified.

For more details regarding our initiatives, please visit our sustainability site.
https://www.shinetsu.co.jp/en/sustainability/

Key issue	Risks	Opportunities	Corresponding initiatives	KPIs	FY2025 Results	Targets*	Scope
The foundation of all activities: Legal compliance, fair corporate activities	• Impact of legal violations and improprieties on corporate management • Damage to corporate value due to loss of trust from society	• Ensuring full compliance awareness and fair corporate activities leads to: (1) Formation of the foundation of corporate value (2) Elimination of risks (3) Building of customer trust and expansion of business opportunities (4) Hiring and retaining of excellent human resources	• Demand thorough compliance awareness among officers and employees through training, etc. • Regarding the prevention of bribery, thoroughly enforce a ban on provision of unfair benefits or demands, and establish internal rules at each overseas Group company • Cutting ties with anti-social forces • Compliance with sound business practices with suppliers and service providers • Support for the "Declaration of Partnership Building"	Number of serious legal or regulatory violations	0	0	Consolidated
E Energy-saving, resource-saving, and reduction of the environmental impact	• Additional costs of stricter regulations related to greenhouse gas emissions • Price increases and difficulty in procuring raw materials for the quantity needed • Increased water risks, such as water depletion and flooding	• The constant challenge of technological innovation leads to the enhancement of "manufacturing ability" • Increasing competitiveness by conserving energy and resources, reducing environmental loads, and improving productivity • Increasing the demand for products that contribute to the environment • Developing technologies that recycle water, thus contributing to business continuity	• Promoting the reduction of environmental impact • Promoting energy conservation • Waste reduction • Pollutant countermeasures • Response to climate change • Resource recycling • Water resource conservation and water pollutant elimination • Conservation of biodiversity initiatives	GHG Emissions (Scope1+Scope2)	6,819 thousand ton of CO_2	0 ton of CO_2 (FY2050)	Consolidated
				Percentage of product sales that contribute to CN	Approx. 70%	Higher	Consolidated
				Emissions intensity index of production volume relative to 1990	54.7% (Shin-Etsu Group), 47.0% (Shin-Etsu Chemical)	45% (FY2025)	Shin-Etsu Chemical and its domestic and overseas group companies
				Average annual rate of energy consumption in terms of intensity	Decreased by 1.6%	Reduce energy consumption in terms of intensity at an average annual rate of 1%	Consolidated
				Average annual rate of water withdrawal in terms of intensity	Increased by 3.6%	Reduce the annual average rate by 1% in terms of intensity	Consolidated
				Average annual rate of BOD emissions in terms of intensity	Increased by 3.7%	Reduce the annual average rate by 1% in terms of intensity	Consolidated
				Water recycle ratio	92.0%	—	Consolidated
				Final waste landfill disposal rate	1.07%	Achieve zero waste emissions Reduce (final landfill waste – to be 1% or less of all waste generated)	Consolidated companies in Japan
				Waste recycling ratio	73% (Japan), 54% (Overseas)	—	Japan: Shin-Etsu Chemical and its domestic consolidated companies Overseas: Shin-Etsu Chemical's overseas consolidated companies
				Average annual rate of emissions of air pollutants in terms of intensity	4.4% decreased in Soot, 1.4% increased in SOx	Reduce emissions of air pollutants in terms of intensity at an annual average rate of 1%	Consolidated

*If there is a date for the target, it is stated. Otherwise, it is a permanent target.

Shin-Etsu Group's Sustainability

Strategy, Metrics, and Targets

Key issue		Risks	Opportunities	Corresponding initiatives	KPIs	FY2025 Results	Targets*	Scope
S	Health and safety of employees and contractors	• Impact of accidents and environmental problems on local communities and employees • Damage to equipment caused by typhoons, earthquakes, or other natural disasters • Impact of an infectious disease outbreak on operations	• Implementing measures to prevent accidents and developing new production processes enable the creation of a safe working environment and the improvement of stable production and higher productivity • Hiring and retaining excellent human resources • Continuing operations, shutting down operations, and resuming operations safely by designing the plant in anticipation of a natural disaster and taking measures against risks • Promoting employee health, achieving a work-life balance, and cultivating a sense of motivation and fulfillment in work	• Safety education for employees through disaster prevention drills and workshops • Environmental control and safety audits • Improvement of the workplace environment and promotion of employees' health	Number of participants in safety training	87,138	—	Consolidated
					Number of work-related employee fatalities	0	0	Consolidated
					Number of serious accidents	0	0	Consolidated
					Lost-time accidents rate	0.08 (Japan), 0.11 (Overseas)	0	Japan: Shin-Etsu Chemical and its domestic consolidated companies Overseas: Shin-Etsu Chemical's overseas consolidated companies
					Lost-time accidents severity rate	0.00 (Japan), 0.01 (Overseas)	0	
					Rate of labor accidents not accompanied by an absence of a day or more	0.13	0.5 or below	Shin-Etsu Chemical and its domestic consolidated companies
	Product quality improvements and product safety control	• Loss of trust due to product quality issues • Direct or indirect impacts on product safety	• The track record of continuing to deliver products of the promised quality on time will lead to increased customer trust • Sincere efforts to ensure product safety and accumulation of achievements will lead to the trust of customers and society	• Quality control • Quality audits and support • Product safety control • Promote automation of quality inspections and assurance (reduce personnel involvement) • Verification of the statistical validity of inspection variations and standard ranges	Number of participants in product safety training	81,425	—	Consolidated
	Promoting CSR procurement and the diversification of supply sources	• Impact from not being able to procure raw materials, such as discontinuation of manufacture and shipment delay to customers • Problems arising in the supply chain	• Diversifying suppliers to enable stable procurement, purchasing at optimal prices, and procurement of raw materials through fair transactions • Earning the trust of customers and society by thoroughly implementing CSR procurement	• Create "Shin-Etsu Group CSR Procurement Guidelines" and revise them as appropriate • Ensuring compliance with the Subcontract Act (now the Proper Transactions Act) by attending seminars and conducting internal audits • Implementing initiatives to eliminate the use of conflict minerals • Implementing the supplier CSR procurement survey • Participation in RSPO "Roundtable on Sustainable Palm Oil"	Percentage of suppliers surveyed on sustainability	(FY2021 Results Approx. 70%)	—	Shin-Etsu Chemical and its domestic and overseas consolidated companies
	Respect for human rights, the development of human resources, and the promotion of diversity	• Occurrence of human rights infringements in the Group's business activities and supply chain • Occurrence of differences and biases in the effectiveness of on-the-job training • Negative impact of performance-based evaluation (Putting emphasis on short-term results, bias in evaluation depending on department, performance decline due to external factors, etc.) • Increase in turnover rate and decrease in job seekers due to inability to meet needs for diversification of work styles	• Improving the market evaluation of companies that promote respect for human rights • Active participation of excellent human resources who have cultivated practical skills through on-the-job training • Accumulation of knowledge, skills and experience • Maintaining and improving organizational vitality brought about by a strong desire to take on challenges to achieve goals • Business growth and new business development by hiring, developing, and selecting talented human resources	• Promotion of respect for human rights based on the Universal Declaration of Human Rights • Implementing human rights due diligence • Supporting employee growth through a training system • Promote communication between superiors and subordinates • Promoting penetration of an evaluation compensation system focused on skill development • Creating an environment where people can play an active role regardless of gender or age • Enhancement of work-life balance system	Ratio of women at the time of hiring	Administrative positions: 47.1%, engineering positions: 8.0%	Administrative positions: 40%, engineering positions: 10%	Employees and seconded employees of Shin-Etsu Chemical
					Number of women in managerial positions, including junior manager level	4.2 times versus FY2014	4 times versus FY2014	Employees and seconded employees of Shin-Etsu Chemical
					Employment rate of persons with disabilities	2.71	2.50	Shin-Etsu Chemical and its domestic consolidated companies
					Number of child labor cases	0	0	Consolidated
					Number of forced labor cases	0	0	Consolidated
	Respect for and protection of intellectual property	• The adverse effect on product sales due to infringement of our intellectual property • Restrictions on our product sales and business due to the patents of other entities • Impact of cyber-attacks on production, sales, and R&D activities • Loss of trust in the company due to information leakage	• Promoting product development and unique manufacturing methods by protecting and utilizing our intellectual property • Contributing to the development of industry and the society by publishing inventions • Implementing technology innovation and operational reforms by utilizing digital technologies while thoroughly protecting and managing information assets and taking measures against cyber attacks	• Intellectual property management • Initiatives for information asset management • Protection of personal information • Initiatives for cybersecurity	Patents acquired	1,737	—	Major consolidated manufacturing companies
					Patents held	24,809	—	Major consolidated manufacturing companies
	Contribution to industry and social initiatives	• Loss of trust from local communities due to social contribution activities not meeting local needs • Impact on the world development due to the delay in achieving a sustainable world that the SDGs aim to achieve	• Creation of employment opportunities, stable employment and tax payment due to business stability • Building relationships of trust with the local community through dialogue and continuous activities • Contributing to a better world by addressing SDG issues through business operations	• Contribution to SDGs goals and targets • Fundraising for the U.N. World Refugee Day • Summer school for elementary school students • Traffic safety activities • Contribution to Society Activities at Overseas Group Company	—			
	Accurate and timely information disclosure and communication with stakeholders	• Impairment of corporate value through the non-disclosure and inadequate disclosure of information • Loss of trust from stakeholders and the society due to failure to fulfill accountability	• Creating a fair market evaluation and improving corporate value • Earning the trust of stakeholders and the society	• Appropriate and timely disclosure of company information • Communication with stakeholders • Conference calls with analysts and investors after the announcement of financial results • Holding an exhibition	Earnings briefings and conference calls for institutional investors and analysts	4 times	—	Shin-Etsu Chemical
					Plant tours for analysts and institutional investors / Business briefing session	1 time	—	Shin-Etsu Chemical
					One-on-one meetings with analysts	About 350 times	—	Shin-Etsu Chemical
					Small meetings for investors hosted by securities companies	6 times	—	Shin-Etsu Chemical

*If there is a date for the target, it is stated. Otherwise, it is a permanent target.

Legal Compliance

For more information, please see the "Legal Compliance" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_law/

Ensuring Full Compliance Awareness

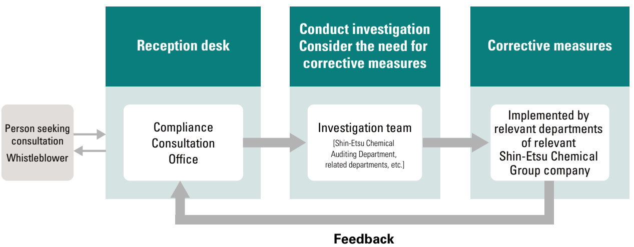
The Group carries out its corporate activities in full compliance with laws and regulations. Whenever laws and regulations are enacted or revised, the Legal Department issues notices throughout the company. We also publish a series of explanatory articles on important laws and regulations in the company newsletter and hold seminars featuring outside experts.

From January to August 2025, we held online courses on the Antimonopoly Act, the anti-bribery policy, the Subcontracting Act, and the Freelance Protection Act, and 2,156 employees passed a test to confirm their understanding. Furthermore, in December 2025, 2,098 employees watched a web video explaining the Japan Fair Trade Commission's amendments to the Subcontracting Act (the Proper Transactions Act). We also provided information to Group companies in Japan via the Company's intranet on topics such as the amendments to the Subcontracting Act and Logistics Special Designation under Japan's Antimonopoly Act.

We also provided information to our overseas Group companies regarding the prohibition on the imposition of non-compete agreements for employees in the United States, the ordinance on payment guarantees for small and medium-sized enterprises in China, and similar topics. To ensure compliance with laws and regulations, the Auditing Department also checks whether Group companies have taken any actions that violate them.

All of the officers and employees have submitted a written oath of compliance to the company. We have also established disciplinary measures to deal with any inappropriate action that may occur.

From compliance consultation and reporting to corrective measures



Compliance Consultation and Reporting

Officers and employees are stipulated to report to the "Compliance Consultation Office" if they discover a violation of laws and/or regulations. If a report is made to the Compliance Consultation Office, the department in charge of investigation will investigate the content of the report, and the company will take corrective measures as necessary after accurately grasping the facts. The confidentiality of people seeking consultation and whistleblowers will be protected, and they will not be treated unfavorably for consulting or reporting.

Lecture on Insider Trading Regulations

Shin-Etsu Chemical has established internal rules on insider trading and conducts training and awareness-raising activities to ensure compliance with laws and regulations. As part of this initiative, in July 2025, we invited an external lawyer to give a lecture in a webinar format. In addition to our own employees, many people from Group companies in Japan and overseas also took part, with a total of 832 people attending.

Lecture on insider trading regulations (Shin-Etsu Chemical Head Office, July 2025)

Initiatives Aimed at Preventing Corruption

In 2015, the Group established the Anti-Bribery Regulations to clearly indicate that we will not be involved in any form of bribery. In addition, by submitting a "Compliance Pledge," we thoroughly prevent the provision of unfair benefits and requests to public officials, customers, and business partners in Japan and overseas. Furthermore, by making the status of compliance with ethics in general one of the items in personnel evaluations, we are working to raise employees' awareness of legal compliance. We also conduct regular internal audits for corruption, embezzlement and bribery. We were among the first companies to endorse the Tokyo Principles for Strengthening Anti-Corruption Practices of the Global Compact Network Japan (GCNJ) and signed them in February 2018.

From January to August 2025, we held online anti-bribery courses and 2,156 employees passed a test to confirm their understanding. For overseas Group companies, we conduct risk assessments related to anti-bribery and anti-corruption using the country-by-country corruption perception index published by Transparency International (an international non-governmental organization that tackles corruption issues) to take into account the circumstances such as the country, company size, business details, etc.

Export Control

In order to comply with export-related laws and regulations such as the Foreign Exchange and Foreign Trade Law, we have established the Security Export Control Regulations. In accordance with this regulation, we are working on the following:

- **Classification, customer review, and transaction review when exporting products**
- **Conducting security export control audits for Group companies to ensure that each company's export control system is properly developed and operated**
- **Training officers and employees and providing instructions to Group companies**

Cutting Ties with Anti-social Forces

The Group declares in its "Basic Policy on Internal Controls" that the Group shall adopt a firm attitude towards anti-social forces and shall take the measures necessary to cut itself off from any and all associations with them. In accordance with this policy, we developed internal systems under the leadership of the department in charge of managing these issues, and signed memorandums and letters of confirmation regarding the exclusion of anti-social forces with customers and suppliers. In addition, we are working closely with external specialized agencies.

Environment

For more information, please see the "Environment" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_environment/

Disclosure under the TCFD

Climate Change on our sustainability site
https://www.shinetsu.co.jp/en/sustainability/esg_environment/global_warming/

Governance

Within the Shin-Etsu Group, the Sustainability Committee is working with each of the Group's business units to address climate change. The Sustainability Committee is one of the committees for each material management task in the Group's corporate governance system. The Committee is chaired by the President and consists of approximately 60 members, including our directors, corporate officers, department managers, and sustainability officers from Group companies, and promotes activities that integrate business activities and sustainability initiatives. The Carbon Neutral Task Force, established within the Committee to examine each issue related to climate change, regularly reports the latest information to the President, who uses this report to determine policies for achieving carbon neutrality.

Strategy

The Group considers the promotion of plans to achieve carbon neutrality by 2050 as an important management issue. While promoting information disclosure based on the TCFD recommendations, including scenario analysis, we identify important risks and opportunities that affect our business through these analyses, and reflect them in our management.

Risk management

The Risk Management Committee works to prepare for and eliminate the various risks surrounding our business, including risks posed by climate change. The Committee is chaired by the President, and consists of five members, including our directors and corporate officers, as well as six support members. Specific risk initiatives are undertaken by a cross-divisional team consisting of the implementation leader and collaborators, including from Group companies. including risks posed by climate change.

With regard to the risks related to climate change, which have become increasingly important in recent years, the Sustainability Committee works with the Risk Management Committee to ascertain risks through scenario analysis.

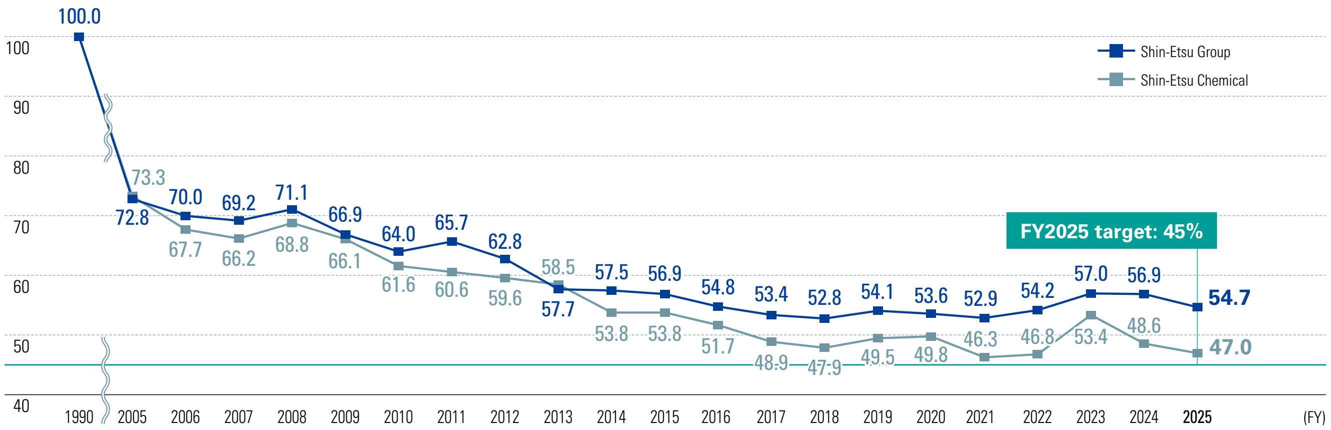
Climate-related risks include transition risks such as increased spending due to CO_2 emissions trading and carbon taxes and rising manufacturing costs due to rising energy prices, as well as physical risks such as damage to equipment due to the wind disaster, damage to electrical equipment due to flooding, and plant shutdown resulting from such cases.

Metrics and targets

The Shin-Etsu Group aims to achieve net zero greenhouse gas emissions (Scope 1 and 2) by 2050. Furthermore, we continue to promote the reduction of greenhouse gas emissions in terms of intensity and worked to achieve our interim target of "Reduce greenhouse gas emissions in terms of intensity to 45% of the FY1990 level by FY2025." On May 28, 2026, our Group announced new interim targets for reducing greenhouse gas emissions.

→For more information, please refer to the "Initiatives Aimed at Carbon Neutrality" (▶P.22).

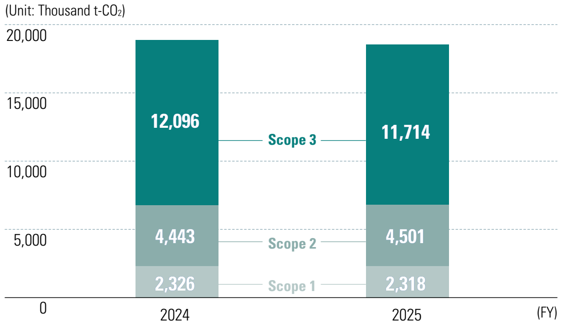
Changes in Greenhouse Gas Emissions in Terms of Production Intensity Relative to the FY1990 Level*



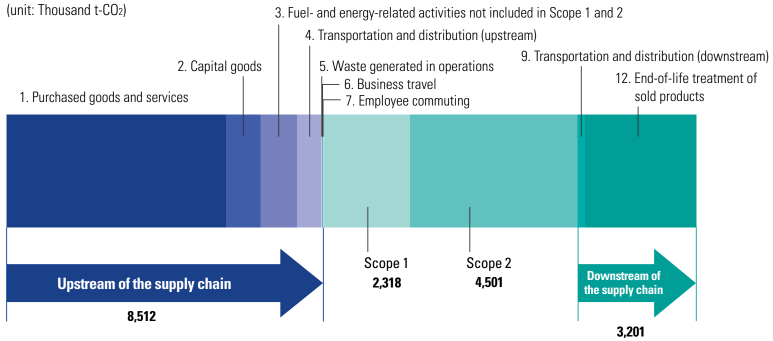
*Greenhouse gas emission intensity index (FY1990 = 100)

Note: Emission intensity index of production volume relative to FY1990 includes non-consolidated group companies. In calculating the index, CO_2 emission factors for electricity are averaged from 2000 to 2009 so that efforts to reduce electricity can be clarified. Furthermore, to clarify our efforts in energy reduction and rationalization, the figures do not include additional emissions categories associated with the amendments to Japan's Order for Enforcement of the Act on Promotion of Global Warming Countermeasures that took effect on April 1, 2024.

Greenhouse gas emissions by scope



Scope 1, 2, and 3 emissions flows



Environment

Disclosure under the TCFD

Scenario analysis of our business with respect to climate change

Business opportunities stemming from climate change: A scenario for a 1.5°C rise

Application	Details	Revenue Impact
PVC-framed windows	Polyvinyl chloride resin is used for window profiles resin windows because of its excellent heat insulation properties. Demand for PVC-framed windows is expected to increase along with the spread of energy-saving homes.	Large
Electric, hybrid, and fuel-cell vehicles	Semiconductor silicon is used in power semiconductor devices such as inverters to control the number of rotations of motors, logic semiconductor devices for automatic driving system and AI. High-performance and compact rare earth magnets can reduce the overall weight of a vehicle and improve its fuel efficiency, which will expand their use in the drive motors of electric, hybrid, and fuel-cell vehicles, as well as in a variety of other motors in vehicles. Silicone heat-dissipating materials are used in lithium-ion batteries and various electronic control devices. Demand is expected to grow as it helps prevent malfunctions and failures caused by heat.	Large
Wind power generators	Demand for rare earth magnets is expected to grow as they contribute to higher efficiency in offshore wind turbines and lower maintenance costs for generators. Demand for polyvinyl chloride used for wire sheathing is also expected to increase due to the development and expansion of the power grid.	Large
Air conditioners	Demand for semiconductor silicon is expanding as it is used in inverter control devices for compressor motors and contributes to power saving by adjusting the rotation speed of the motor to an appropriate level. Demand for rare earth magnets is expected to grow as they improve the energy efficiency of air conditioner compressor motors and reduce energy consumption.	Medium
Aircraft	Rare earth magnets are indispensable for the electrification and hybridization of small aircraft and for the electrification of hydraulic drive units in large aircraft. Demand for rare earth magnets is expected to increase as their small size and high power will help reduce the weight of the aircraft and improve fuel efficiency.	Medium
Industrial motors	Demand for rare earth magnets is expected to grow as they increase the efficiency of industrial motors and reduce the amount of electricity consumed.	Medium
Service robots	Semiconductor silicon is increasingly being used in semiconductors for energy-saving robot control motors for manufacturing, logistics, agriculture, and other applications, as well as in medical and disaster response robots.	Medium
Binding agent for plant-based meat substitutes	A diet centered on plant-based foods may reduce CO_2 emissions by 1.6 gigatons per year*. Cellulose derivatives are used as a binding agent for plant-based meat substitutes. The global market for plant-based meat is expected to grow at a double-digit rate annually, and further market expansion is expected.	Medium

*Source: "DRAWDOWN-The Most Comprehensive Plan Ever Proposed to Reverse Global Warming," written and edited by Paul Hawken.

Business risks due to climate change and countermeasures: A scenario for a 1.5°C rise (transition risk)

Events	Risks to the Company	Revenue Impact	Countermeasures
Introduction of carbon taxes and establishment of carbon emission quotas around the world	• Payment of carbon tax • Incurring costs of purchasing emission credits to meet carbon emission quotas • Increase in cost of measures to reduce greenhouse gas emissions	Large	• Reduce scope 1 emissions (e.g., further promotion of more efficient production processes and introduction of highly efficient equipment; use of energy sources that do not emit CO_2, such as hydrogen and ammonia; use of CCUS) • Achievement of reduction targets in the absolute amount of greenhouse gas emissions • Collection of information on environmental regulations such as carbon taxes in each country and implementation of countermeasures
Widespread use of electricity derived from renewable energy sources and rising electricity prices resulting from tightening regulations on greenhouse gas emissions	• Increase in electricity costs	Large	• Reduce Scope 2 emissions (further promotion of production processes that use less electricity, introduction of high-efficiency equipment, etc.)

Business risks due to climate change and countermeasures: A scenario for a 4°C rise (physical risk)

Events	Risks to the Company	Revenue Impact	Countermeasures
Increase in the frequency of extreme weather events **Increased frequency of flooding caused by changes in precipitation patterns, etc.**	• Flooding of production sites • Disruption of the supply chain	Large	• Raising the ground level of production sites, installation of watertight walls around critical facilities • Installation of electrical rooms in areas with low risk of flooding • Installation of seawalls at production sites close to ports • Multiple production sites • Diversification of raw material procurement sources • Securing product inventory • Enrollment in insurance
Introduction of carbon taxes and establishment of carbon emission quotas in some countries	• Payment of carbon tax imposed on greenhouse gases emitted from production sites in the said countries • Costs of purchasing emission credits and payment of surcharges will be incurred if our greenhouse gas emissions do not meet the carbon emission targets established by the said countries	Small	• Reduce scope 1 emissions (e.g., further promotion of more efficient production processes and introduction of highly efficient equipment; use of energy sources that do not emit CO_2, such as hydrogen and ammonia; use of CCUS) • Achievement of reduction targets in the absolute amount of greenhouse gas emissions • Collection of information on environmental regulations such as carbon taxes in each country and implementation of countermeasures
Electricity prices	According to a scenario analysis by IEA* (a scenario with current measures), electricity prices will not rise. Therefore, there is no risk to us.	—	—

*International Energy Agency

Environment

Resource Saving

Resource Saving on our sustainability website
https://www.shinetsu.co.jp/en/sustainability/esg_environment/resource_saving/

The Shin-Etsu Group recognizes that the efficient use of limited resources and a circular economy are key issues, and by actively addressing them we aim not only to contribute to the global environment, but also to increase our competitiveness and ensure sustainable development. In terms of resource circulation, the Group collaborates with customers and related industry groups, using cutting-edge technologies to recover used products, extract resources, and reuse them in the Group's products.

Resource Circulation

In terms of resource circulation, since 2007 we have been recycling magnetic powder generated from the processing of rare earth magnets. Furthermore, since March 2013, we have been improving the above recycling techniques to recycle rare earth magnets. PVC products in particular are increasingly being recycled because the impact of foreign matter contamination is small.

The recycling rate of PVC materials in Japan is 33%, which is quite high compared to other plastics. Material recycling uses used PVC products as raw materials to create new PVC products. PVC pipes, flooring materials, and other PVC products are subject to various kinds of recycling. In particular, 60% of used PVC pipes and joints are recycled for reuse in new PVC pipes and joints, and 70% of agricultural film is recycled for use in flooring material.

Waste Reduction

The Shin-Etsu Group is engaged in waste reduction initiatives at each location with a target of zero waste emissions (landfill waste of 1% or less of the final amount of all waste generated) at our consolidated companies in Japan.

The Naoetsu Plant makes effective use of unneeded paper materials discarded in the manufacturing process to make recycled paper, and is also pursuing ways to recycle the solvents used in chemical reaction processes and create formulations that allow them to be reused. The plant also upgraded the dehydrator in the wastewater treatment facilities to a higher-performance model, thereby reducing the moisture content of the waste sludge and cutting the disposal weight of the waste. The solid sludge, which is obtained by separating and dehydrating inorganic matter in the wastewater, undergoes intermediate processing by an external contractor and is then put to effective use as roadbed material and the like.

Metrics and Targets

FY2025

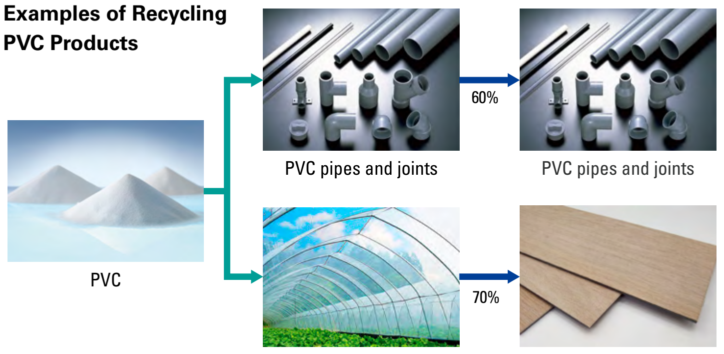
Targets	Achieve zero waste emissions.
	Promote the reduction of waste generation in terms of production intensity.
Results	The final waste landfill disposal rate was 1.07% in Japan
Evaluation	The target was largely achieved in Japan

FY2026

Targets	Achieve zero waste emissions.
	Promote the reduction of waste generation in terms of production intensity.

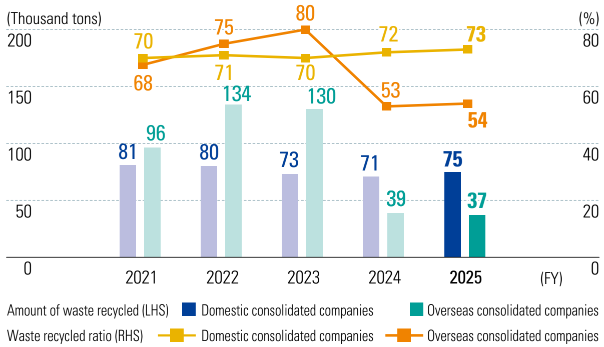
*The scope of target for the waste reduction is Shin-Etsu Chemical Co., Ltd. and consolidated in Japan.

Examples of Recycling PVC Products

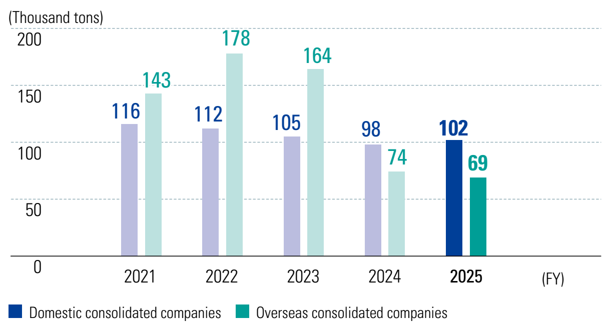


(Photo provided by Achilles Corporation) (Photo provided by TOLI Corporation)

Amount of waste recycled/Waste recycled ratio



Amount of waste generated



Environment

Water Resource Conservation

Water Resource Conservation on our sustainability website
https://www.shinetsu.co.jp/en/sustainability/esg_environment/water/

Because the manufacture of chemical products requires large amounts of water, the Shin-Etsu Group is committed to reducing water intake, recycling water, and thoroughly managing wastewater treatment and water quality.

The Gunma Complex mainly sources the water required for manufacturing from nearby rivers, but to minimize water intake, the complex reuses water in its manufacturing and water-cooling processes by recycling and circulating it inside the complex. Furthermore, effluent is properly treated, and compliance with high water quality standards is ensured through continuous monitoring and regular analysis.

Metrics and Targets

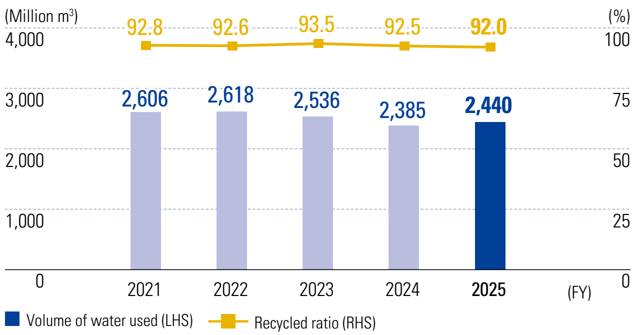
FY2025

Targets	Reduce water withdrawal in terms of intensity at an average annual rate of 1%. Reduce water pollutant discharge in terms of intensity at an average annual rate of 1%.
Results	From FY2022 to FY2025, average annual intensity increased by 3.6% for water withdrawal and 3.7% for BOD emission.
Evaluation	The targets were not achieved.

FY2026

Targets	Reduce water withdrawal in terms of intensity at an average annual rate of 1%. Reduce water pollutant discharge in terms of intensity at an average annual rate of 1%.

Water usage*/Recycled ratio (Consolidated)



*Total quantity of water withdrawal and recycled water

Effective Use of Rainwater

Since its foundation, Asia Silicones Monomer Limited has been making effective use of the abundant rainfall it enjoys in its location in Thailand. It stores rainwater in storage tanks on-site, using it for industrial water and as coolant for waste gas incinerator. It also supplies Group company Shin-Etsu Silicones (Thailand) and its nearby partners with industrial water using rainwater.

Biodiversity

Biodiversity and Pollutant Countermeasures on our sustainability website
https://www.shinetsu.co.jp/en/sustainability/esg_environment/chemical/

The Shin-Etsu Group, mindful of conserving biodiversity, pursues environmentally conscious design from the product development stage and also engages in community activities such as greening its factory grounds and cleaning rivers. We source the pulp used as a raw material for our cellulose derivatives from forest-certified suppliers and strive to monitor the biodiversity initiatives of our suppliers. We are also promoting sustainable palm oil procurement through certification by the Roundtable on Sustainable Palm Oil (RSPO), which is aimed at preventing deforestation, preserving biodiversity, and addressing human rights and labor issues.

Plants growing on factory premises (Shin-Etsu Handotai Shirakawa Plant)

Pollutant Countermeasures

The Group is working to reduce emissions of air pollutants by setting emission reduction targets and by converting to the use of fuel components with less sulfur. Each group company carried out regular investigations on their emitted gas to confirm that they comply with laws and regulations. Furthermore, we conducted 229 voluntary groundwater and soil monitoring tests on the grounds of our plants in FY2025 in accordance with Japan's Soil Contamination Countermeasures Act and agreements with local governments.

Metrics and Targets

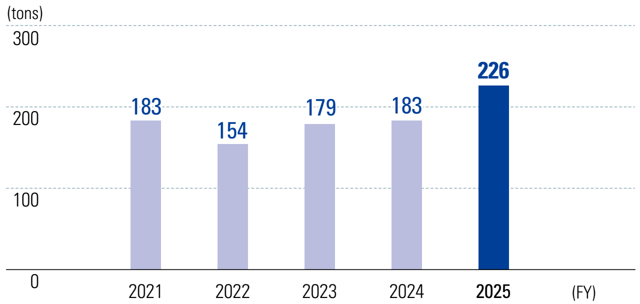
FY2025

Targets	Reduce emissions of air pollutants in terms of production intensity at an average annual rate of 1%.
Results	From FY2022 to FY2025, average annual intensity decreased by 4.4% for soot and increased by 1.4% for SOx.
Evaluation	The targets were achieved for soot, not achieved for SOx.

FY2026

Targets	Reduce emissions of air pollutants in terms of production intensity at an average annual rate of 1%.

Gross discharge of chemical substances designated under the pollutant release and transfer register (PRTR) system (domestic consolidated)



*Figures are totals for Shin-Etsu Chemical and its domestic consolidated companies based on the PRTR system in the Law for Promotion of Chemical Management.

Social

For more information, please see the "Social" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_social/

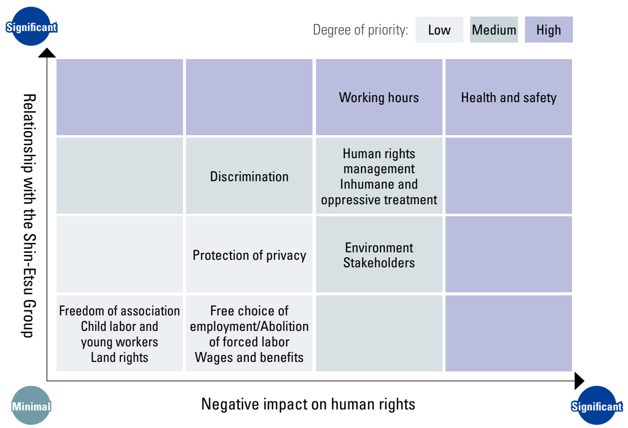
Respect for Human Rights

For more information, please see the "Respect for Human Rights" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_social/human-rights/

The Shin-Etsu Group conducts its business activities based on the constant respect for human rights at our locations around the world. In May 2019, we compiled this policy into our Shin-Etsu Group Human Rights Policy and have thoroughly implemented it within the Group. In May 2024, in light of changes in the social environment surrounding human rights, we revised our Human Rights Policy based on the UN Guiding Principles on Business and Human Rights. The revised policy has been communicated throughout the Group and is also available on our website. Furthermore, we conduct an annual survey of our consolidated companies regarding items related to respecting human rights*, labor management, and whether employment is properly implemented in accordance with the laws and regulations of each country and region, and we continuously promote initiatives to respect human rights.

*Items related to respecting human rights: Prohibition of child labor, proper working hours, decent wages, proper employment contract in writing, prohibition of inhuman treatment, prohibition of discrimination, freedom of association

Identification of priority issues for human rights risks



Assessing human rights risks and identifying priority issues

Based on the first Shin-Etsu Group Human Rights Risk Survey conducted in 2019, in 2021 we evaluated the priority of human rights issues based on the risks assumed for the Group along the two axes of "severity of potential impact on human rights" and "relationship between human rights risk and the Company." As a result, we identified a high potential risk in items related to safety, health, and working hours. In addition, in an analysis of the responses to the Human Rights Risk Survey, approximately 40% of Group companies responded that human rights management in the supply chain is important, indicating the need to promote efforts to respect human rights throughout the supply chain. Our initiatives to address these priority issues in FY2025 are given below. In FY2025 we conducted the second Shin-Etsu Group Human Rights Risk Survey, and occupational health and safety and harassment were identified as future priority issues.

Initiatives for FY2025

Working hours

The Shin-Etsu Group is actively working to ensure that employees' working hours are properly recorded, for example by introducing a system to accurately track working hours based on card readers installed at factory entrances, computer logs, and other data.

Health and safety

We have in place the "Shin-Etsu Group Environmental Safety Management Plan," and are working to set specific numerical targets for occupational safety.

[Related Information]
Implementation status, evaluation, and planned implementation items related to health and safety of employees and contractors
https://www.shinetsu.co.jp/en/sustainability/assets/pdf/sustainability/esg_social/safety/safety_2026E.pdf

Supply chain management

Starting in 2022, we began distributing the Shin-Etsu Group Human Rights Policy, Basic Procurement Policy, and CSR Procurement Guidelines to our major business partners, informing them of the Group's policies on sustainability activities, including respect for human rights. We also received questionnaire responses from approximately 70% of our first-tier suppliers, and as a result, we confirmed that there were no high-risk business partners who were in conflict with the human rights issues that we consider serious and who scored significantly below the evaluation benchmark. Furthermore, to confirm whether business partners conduct business activities in accordance with the Group's CSR Procurement Guidelines, in 2026 we started using an external sustainability assessment agency on a trial basis.

Implementation of human rights awareness education

The Human Rights Enlightenment Promotion Committee takes the lead in holding regular human rights awareness training and asks people to submit human rights awareness slogans to coincide with our annual human rights week in December. Starting in FY2025, the chair of the Human Rights Enlightenment Promotion Committee called on all employees to respect human rights in messages sent by email and posted on the company intranet. We are working to create opportunities for employees to see human rights as their own concern in their daily work and to translate that commitment into action. In FY2025, an e-learning program was conducted for Shin-Etsu Chemical officers and Group employees under the theme of "Preventing Harassment: Communication in the Workplace." The attendance rate was 95.8%.


Human rights awareness training (August 2025, Shin-Etsu Kikou)

Consulting and reporting on human rights

The Group has established three contact points—the Compliance Consultation Office, Dial Shin-Etsu, and the Supplier Hotline—to handle consultations and reports regarding human rights. The confidentiality of consulters and whistleblowers will be protected, and they will not be treated unfavorably for consulting or reporting.

Social

Quality Control

For more information, please see the "Quality Control" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_social/quality/

The Group focuses on stably supplying the high-quality products that customers demand. In quality control, we are committed to "defensive quality control" that does not produce or ship irregular products, and "aggressive quality control" that minimizes variations in quality and creates quality that cannot be followed by other companies. We have established a robust internal quality management system and are continuously working to improve quality and reduce deviations and waste.

In the quality audit in FY2025, the following items were audited as priority items:

- **"Efforts to reduce variations in manufacturing processes": In addition to improving the conventional manufacturing variations, we confirmed the improvement status of quality through the introduction of DX and AI.**
- **"Examples of improvements and status of horizontal deployment": We checked whether the cause analysis of past quality problems was conducted logically based on fundamental principles, whether permanent countermeasures were implemented and continued, and whether those improvement measures were deployed horizontally to other operations.**
- **"Division audits": The sales, production, and quality assurance departments select quality issues that they consider important for their business or product, and the sales department reports on and confirms the status of quality improvement plans and their implementation.**

We are also implementing six sigma programs* throughout the Company to improve quality standards.

*Quality improvement method developed by Motorola in the 1980s. Focusing on processes with quality variation, it is designed to minimize variations within the processes, thereby reducing the incidence of quality defects.

Quality audit (September 2025, Shin-Etsu Chemical Gunma Complex)

The 26th debrief session of the results of Shin-Etsu Six Sigma (February 2026, Shin-Etsu Chemical Head Office)

Product Safety Control

For more information, please see the "Product Safety Control" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_social/responsible/

The Group appropriately designs and manages chemical substances in accordance with laws and regulations and evaluates their safety based on the latest information collected in cooperation with administrative bodies and affiliated organizations. Additionally, we evaluate the safety of facilities handling chemical substances, their handling methods, the use of protective equipment, and the response to potential accidents, and when necessary, take corrective action. These evaluations are performed on a regular basis and whenever changes are made. We also obtain or prepare Safety Data Sheets (SDSs*) to provide employees, customers and business partners with the latest information on the effects of chemical substances.

Seeking to prevent health hazards and minimize environmental impacts, the Shin-Etsu Group is reducing usage of these substances through process improvements and other measures. We are also rapidly developing and switching to safer alternatives.

*Safety Data Sheet (SDS) : SDS lists the physical and chemical properties of chemical substances, together with their harmfulness and emergency response procedures. Designed to promote safer use of chemical substances and prevent accidents and incidents, SDS are supplied by manufacturers, importers, and distributors to customers during sales or shipment.

Chemical Substance/Product Management Flow

Environmental safety management regulations	Operation management regulations	Quality management implementation standards	Quality assurance implementation standards, etc.

Planning	Setting environmental and safety quality targets
R&D	■ Obtaining information on chemical substances Obtain SDSs ■ Chemical substances / Product safety /Risk assessment SDS education, chemical substance management education, personal protective equipment management education, local exhaust ventilation maintenance management, risk assessment of chemical substances, etc. ■ Confirmation and compliance with laws and regulations (notification of new chemical substances, etc.) Double-checking the elimination of all persistent, highly accumulative, and long-term toxic substances under Japan's Chemical Substances Control Law, etc.
Commercialization	Confirmation of achievement of environmental and safety quality targets
Manufacturing	Management and legal compliance
Sales	Information disclosure and legal compliance

Sustainable Procurement

For more information, please see the "Sustainable Procurement" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_social/procurement/

In our "Basic Procurement Policy," the Group has declared our dedication to eliminating minerals from conflict-affected and high-risk areas (CAHRAs) that are clearly involved in conflicts and human rights infringement in all product procurement. We require our suppliers to comply with this policy and regularly trace relevant minerals including tin, tungsten, tantalum, and gold back to the smelter using the Conflict Minerals Reporting Template (CMRT) issued by the Responsible Minerals Initiative (RMI). In FY2020, we investigated 22 companies in 43 product categories. In the future, we will also consider complying with the Extended Minerals Reporting Template (EMRT), which adds cobalt and natural mica.

Social

Communication with Stakeholders

Shin-Etsu Group communicates with stakeholders actively through a variety of methods and opportunities. We believe that this effort contributes to the sustainable growth of the Group and increases corporate value.

For more information, please see the "Communication with Stakeholders" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_social/dialogue/

Stakeholders	Communication Policy	FY2025 Results
Shareholders and Investors	We disclose information on our business performance and management policies and strategies in a timely and appropriate manner and host a wide range of briefings to cultivate a deeper understanding of the Group. In this way, we strive to build a relationship of trust with our shareholders and investors, establish an appropriate market valuation, and improve our corporate value.	Financial results briefings and conference calls for analysts and institutional investors (4 times in 2025) Business briefings and plant tours for securities analysts and investors (once in 2025) One-on-one meetings with analysts (about 350 times in 2025) Small meetings for investors hosted by securities companies (6 times in 2025)
Customers	The sales, development, and production departments work together to improve customer satisfaction by communicating closely with customers, identifying customer issues and needs, and responding quickly to them.	Day-to-day communications by sales representatives Information provided on the company website, exhibitions, etc.
Suppliers	By publishing our Basic Procurement Policy and CSR Procurement Guidelines, and through fair, impartial, and transparent transactions, we will build sound, mutually beneficial relationships with our business partners and strive for mutual prosperity.	Day-to-day communications by the Purchasing Department Supplier hotline
Local communities	We value communication with local residents, governments, and municipalities, and are actively involved in social contribution activities in the community, striving to build a relationship of trust with the local community.	Communication with organizations such as local governments Participation in local events
Employees	In addition to disseminating information via the company magazine and intranet and conducting employee satisfaction surveys, we place importance on two-way communication between management and employees, such as by having the president visit each location to provide opportunities for the exchange of opinions.	Communication and consultation with labor unions Information provided on the company magazine and intranet

Example of Communication with Shareholders and Investors

AI-related Business Briefing

We held an AI-related business briefing for securities analysts and investors. The briefing session included an introduction to Shin-Etsu Chemical products that support the advancement of AI, a presentation on the initiatives at our Isesaki Campus (Gunma Prefecture), which manufactures proprietary advanced materials exclusively for cutting-edge AI semiconductors, and a Q&A session. More than 170 securities analysts and institutional investors attended the day's events, both in person and online.

AI-related business briefing
(March 2026, Shin-Etsu Chemical Head Office)

Example of Communication with Local Communities

Guided Tours of Research Center

Shin-Etsu Chemical's Silicone-Electronics Materials Research Center hosted guided tours for high school students in Gunma Prefecture from July to August 2025. We were able to increase high school students' interest in science and engineering fields and deepen their understanding of future career choices and research work through an introduction to Shin-Etsu Chemical's business activities and research fields. The high schoolers expressed surprise at the wide variety and diverse applications of our products, and asked many questions during the Q&A sessions.

Guided tour of research center
(July 2025, Gunma Complex)

Corporate Governance Approach and Initiatives

Basic Approach

Our basic management policy is to continuously enhance our corporate value and meet shareholder expectations. To carry out this policy, we have established an efficient organizational structure and various systems designed to respond to changes in the business environment. In addition, to improve transparency in management and strengthen oversight functions, our basic approach to corporate governance is to accurately disclose information to shareholders and investors, and we consider this to be one of our highest management priorities.

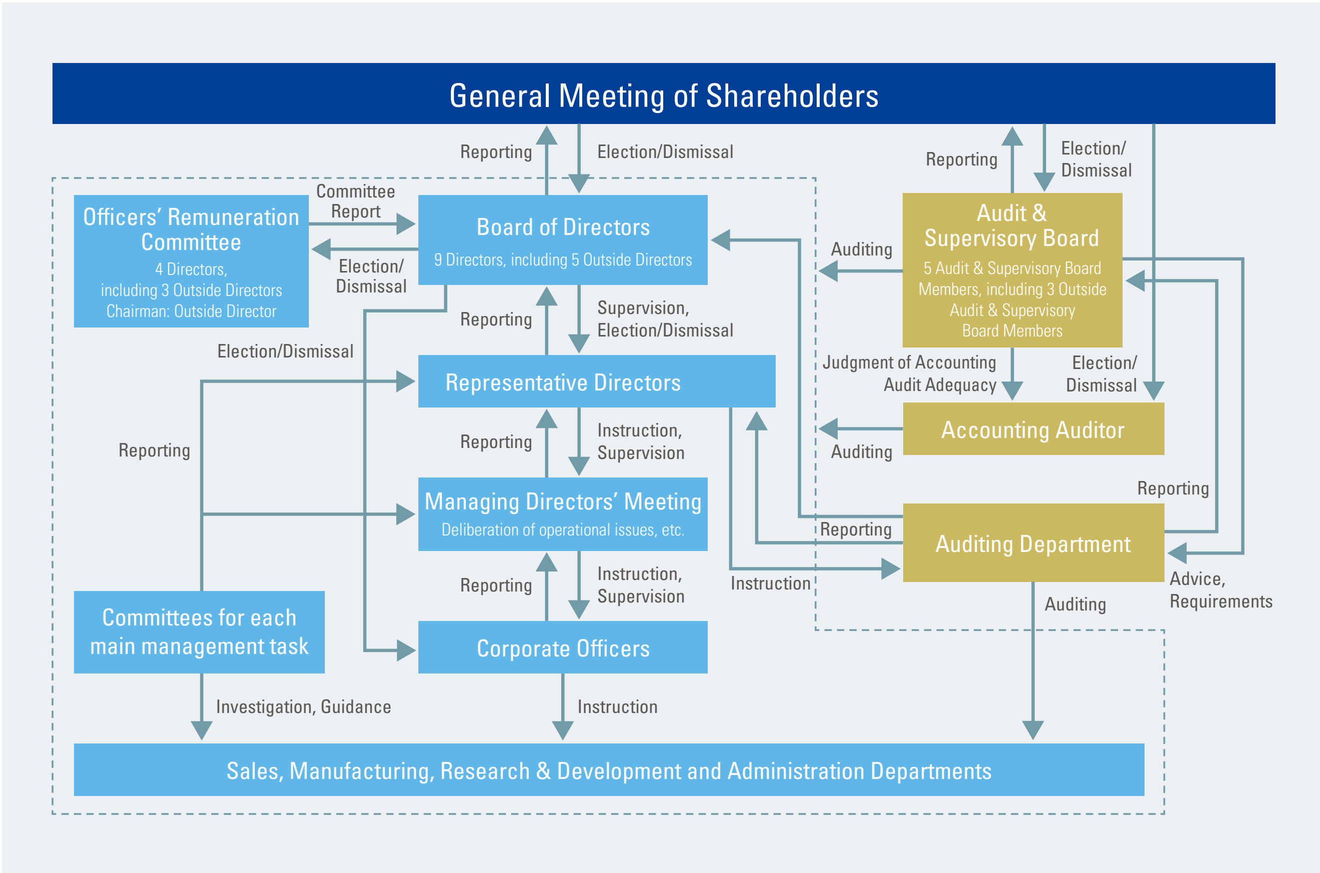
For more detailed information, please see the Governance section on the Group's website.
https://www.shinetsu.co.jp/en/sustainability/esg_foundation/governance/

Corporate Governance Structure

The Board of Directors consists of nine directors, five of whom are Outside Directors with extensive corporate and organizational management experience and outstanding insight.

In addition to the Board of Directors, we have established the Managing Directors' Meeting to function as another deliberation and decision-making body for business execution. In principle, both organizations meet once per month. The Board of Directors deliberates and makes decisions on important matters related to management, including the Company's basic policies and matters required to be resolved by laws, regulations, and the Articles of Incorporation of the Company. The Managing Directors' Meeting deliberates and makes decisions on all aspects of the Company's operations (excluding matters submitted to the Board of Directors). Furthermore, the Company has formed the Officers' Remuneration Committee, which is chaired by an Outside Director and serves as an advisory body to the Board of Directors, in an effort to ensure transparency and appropriateness in reviewing and evaluating remuneration for officers and the nomination of candidates for Directors and Audit & Supervisory Board Members.

Shin-Etsu Chemical has adopted the Company with Audit & Supervisory Board Members system as its organizational structure. The Audit & Supervisory Board consists of five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members. In addition to attending important internal meetings such as meetings of the Board of Directors and the Managing Directors' Meeting, Audit & Supervisory Board Members receive reports from Directors, Corporate Officers, employees, and others on the status of execution of their duties and audit the execution of duties by Directors through on-site inspections of business sites and subsidiaries, including overseas, and other investigations. Audit & Supervisory Board Members also receive quarterly reports and explanations regarding accounting audits from an accounting auditor, and ensure proper collaboration by exchanging information and opinions as necessary. They also regularly receive reports and explanations regarding the status of internal auditing from the Internal Auditing Department and work cooperatively with it, exchanging views and ideas.



Corporate Governance Approach and Initiatives

Officers' Remuneration Committee

To ensure transparency and appropriateness in the processes involved in reviewing and evaluating remuneration for officers, as well as nominating candidates for senior management, Directors, and Audit & Supervisory Board Members, we have established the Officers' Remuneration Committee. This committee is chaired by Independent Outside Director Kuniharu Nakamura and includes two other Independent Outside Directors, Michael McGarry and Mariko Hasegawa, as well as Representative Director, President Yasuhiko Saitoh, making a total of four Directors. They comprehensively review and evaluate each Director's contributions to the Company's performance and overall management every fiscal year, and report their findings to the Board of Directors.

Basic Fundamental Policy Regarding Remuneration and Its Calculation Method

The remuneration system of Directors shall be designed to contribute to the mid- to long-term enhancement of the corporate value of the Company, and the remuneration of Directors shall be determined by the Board of Directors based on the results of the review and evaluation by the Officers' Remuneration Committee as well as its opinion thereon. The remuneration shall consist of "fixed remuneration" determined as appropriate for each individual's position, job responsibilities, etc., and "performance-based remuneration" that takes into consideration the annual financial performance of the Company as an incentive for the enhancement of corporate value, as well as "stock options" as an incentive for higher motivation and morale to execute one's duties and to improve performance, and ultimately for the enhancement of shareholder value (stock price-linked remuneration).

On the other hand, the remuneration of Audit & Supervisory Board Members shall be determined through their mutual consultation. The remuneration shall consist of "fixed remuneration" determined as appropriate for each individual's job responsibilities as an Audit & Supervisory Board Member. Outside Directors and Audit & Supervisory Board Members are not entitled to any "performance-based remuneration" or "stock options" as they are expected to perform supervisory and checking functions over management.

Remuneration amount by Director type and its detail, number of applicable Directors (For the year ended March 31, 2026)

Designation	Amount of remuneration, etc. by type (¥ million)			Number of recipients (People)	Amount of remuneration, etc. by type (¥ million)	Number of recipients (People)
	Fixed	Performance-based	Total		Non-monetary remuneration, etc.	
Directors (excluding Outside Directors)	468	263	731	4	259	4
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	34	—	34	2	—	—
Outside Directors and Outside Audit & Supervisory Board Members	191	—	191	8	—	—

Notes: 1. The Officers' Retirement Benefits Program was repealed at the conclusion of the 131st General Shareholders' Meeting held on June 27, 2008.
2. The amount of non-monetary remuneration, which consists of stock options, is an expensed amount calculated for the current fiscal year based on the accounting standards. Therefore, it does not represent the amount paid in cash or the amount the Company guarantees to pay in cash, either.
3. The total amount of remuneration issued to Directors (excluding Outside Directors), which consists of fixed, performance-based and non-monetary remuneration, etc., was ¥990 million.

Assessment of Board of Directors Effectiveness

At every meeting of our Board of Directors, Outside Directors ask questions and make suggestions regarding agenda items, and there is a lively exchange of opinions and discussion. In addition, Outside Directors answer a written questionnaire regarding the effectiveness of the Board of Directors as a whole. In FY2025, the Board of Directors of the Company was evaluated as being effective. From the questionnaire, we were able to obtain valuable feedback from Outside Directors on issues such as "Reviewing cross-shareholdings and other policies to optimize capital efficiency" and "Delegating authority to the President for approvals of small-scale investment projects."

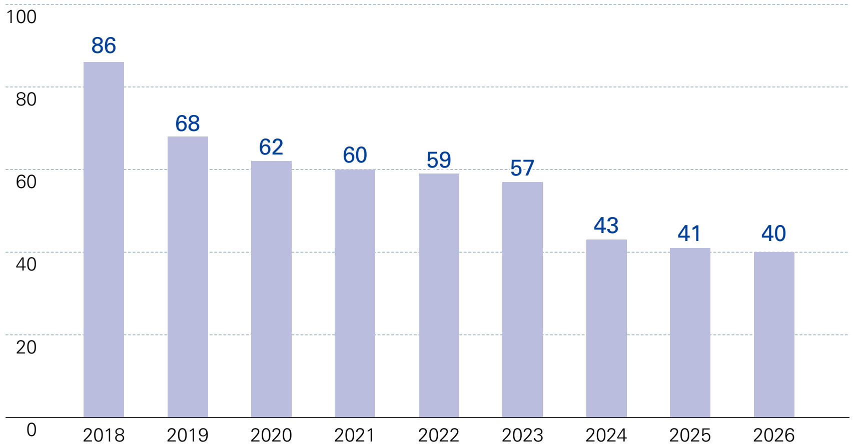
Policy on Cross-shareholdings

When we determine that maintaining and strengthening a stable business relationship with another company will contribute to the enhancement of our corporate value through sustainable growth, we may hold shares in that company where appropriate depending on the importance of that company to our business strategy. At least once per year, the Board of Directors comprehensively reviews the rationality of each individual cross-shareholding and other factors from both quantitative perspectives, such as whether the benefits associated with holding the stocks, including dividend income, exceed the capital cost, and qualitative perspectives, such as strategic importance to management and the maintenance and strengthening of business relationships.

In cases where the Board of Directors judges that the economic rationality of holding the relevant shares has diminished, we gradually sell the shares, thereby reducing our cross-shareholdings. As of March 31, 2018, our cross-shareholdings consisted of 86 individual stocks, and by March 31, 2026, the number had decreased to 40.

With regard to our remaining cross-shareholdings, when exercising the shareholder voting rights they confer, we vote on each proposal in the shareholder meetings individually based on a comprehensive judgment that considers factors such as whether the proposal might damage shareholder value, based on the perspective of our purpose in holding the shares (which is to enhance our corporate value through sustainable growth) as well as what will contribute to enhancement of the corporate value of the investee.

Number of individual stocks held as cross-shareholdings (as of March 31 of each year)



Note: The indicated number of individual stocks held as cross-shareholdings consists of the total number of specified investment shares and deemed holdings under Japan's Cabinet Office Order on Disclosure of Corporate Affairs.

Management (As of June 26, 2026)

Board of Directors

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.

Representative Director-President

Yasuhiko Saitoh

Director & President of Shintech Inc.
Director & President of Shin-Etsu Handotai America, Inc.

Director, Senior Managing Corporate Officer

Susumu Ueno

In charge of Silicone Chemical Technologies and Magnetic Materials Div.

Director, Senior Managing Corporate Officer

Masahiko Todoroki

In charge of Semiconductor Materials Dept.
Senior Managing Director of Shin-Etsu Handotai Co., Ltd.

Director Outside

Kuniharu Nakamura*1

Special Adviser, SUMITOMO CORPORATION

Director Outside

Michael H. McGarry*1

Former Director & Chairman, Chief Executive Officer, PPG Industries, Inc.
Director, Holcim AG
Director, C. H. Robinson Worldwide, Inc.

Director Outside

Mariko Hasegawa*1

Former President, National University Corporation, the Graduate University for Advanced Studies, SOKENDAI
President, Independent Administrative Agency, the Japan Arts Council

Director Outside

Takashi Hibino*1

Advisor, Daiwa Securities Group Inc.
Chairman and CEO, Japan Securities Dealers Association
Outside Director, Mitsui Fudosan Co., Ltd.

Director Outside

Atsuko Oka*1

Former Executive Vice President, NIPPON TELEGRAPH AND TELEPHONE CORPORATION (currently "NTT, Inc.")
Representative Member of the Board, President and CEO, NTT TechnoCross Corporation

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member

Hidenori Onezawa

Full-time Audit & Supervisory Board Member

Yoshimitsu Takahashi

Audit & Supervisory Board Member Outside

Mitsuko Kagami*2

Lawyer, Partner Lawyer, KAGAMI Law Office

Audit & Supervisory Board Member Outside

Hiroko Kaneko*2

C.P.A., Member of the Business Accounting Council, Financial Services Agency
Outside Director/Audit & Supervisory Committee Member, Mitsubishi HC Capital Inc.
Outside Audit & Supervisory Board Member, Development Bank of Japan Inc.

Audit & Supervisory Board Member Outside

Shunichi Kuryu*2

Former Commissioner General, the National Police Agency

Outside: Outside Director or Outside Audit & Supervisory Board Member

*1 Indicates an Outside Director as defined in Item 15, Article 2, of the Corporations Law.

*2 Indicates an Outside Audit & Supervisory Board Member as defined in Item 16, Article 2, of the Corporations Law.

Management

Areas of Expertise and Involvement of Directors

The Company's basic policy is to structure the Board of Directors in a way that facilitates accurate and swift decision-making and adequate supervision of business activities. To that end, the Company elects internal directors with specialized expertise in areas such as sales, manufacturing, and R&D, along with multiple outside directors who can actively express their opinions on growth strategies and the enhancement of governance from a broad perspective. An appropriate number of directors, regardless of nationality or gender, are appointed to the Board based on the scale of the Company's business.

The Company has elected five outside directors, including one foreign national and two female directors, all of whom have a wealth of experience and proven track records in a wide range of industries. The expertise and areas of involvement of the directors are as follows.

	Growth strategy	Production technology/ Productivity	Product development	Risk management	Capital policy	Human capital	Sustainability
Fumio Akiya	●	●	●	●		●	●
Yasuhiko Saitoh	●		●	●	●	●	●
Susumu Ueno	●	●	●	●			●
Masahiko Todoroki	●		●	●			●
Kuniharu Nakamura	●			●	●		●
Michael H. McGarry	●	●		●	●	●	●
Mariko Hasegawa				●		●	●
Takashi Hibino	●			●	●		●
Atsuko Oka		●	●	●		●	●

Note: The above list represents the most specialized expertise of each Director and is not meant to be an exhaustive list of their knowledge and experience. Risk management and Sustainability are areas in which the Company expects all Directors to be involved.

An overview of each area of expertise shown in the table above is as follows.

Expertise	Overview
Growth strategy	Skills and experience in formulating policies from a longer-term perspective for the purpose of enhancing corporate value and ensuring sustained business growth, and in executing or overseeing various measures for realizing such policies.
Production technology/Productivity	Skills and experience in executing or overseeing various measures aimed at transforming production technology from the perspectives of mainly productivity improvements, safe and stable operations, and the reduction of environmental impacts.
Product development	Skills and experience in executing or overseeing product development activities aimed at further strengthening competitiveness and achieving early commercialization.
Risk management	Skills and experience in anticipating all kinds of risks that may arise in business activities in general, and in executing or overseeing various measures related to the prevention and mitigation of such risks.
Capital policy	Skills and experience in examining and executing capital policies for making the Company's financial base more resilient, for growth investments, and for enhancing shareholder returns, or in overseeing the execution of such policies.
Human capital	Skills and experience in executing or overseeing human capital management, including securing and developing talent, building a corporate culture that embodies organizational diversity, and enhancing individual employee engagement.
Sustainability	Skills and experience in executing or overseeing corporate governance, addressing global environmental issues such as climate change, and implementing activities that respect human rights, all of which form the foundation for the sustained enhancement of corporate value.

Activity Status of Outside Directors and Outside Audit & Supervisory Board Members

(Year ended March 31, 2026)

	Status of activities	Attendance at Board Meetings and Audit & Supervisory Board Meetings (Year ended March 31, 2026)
Outside Director		**Board of Directors Meetings**
Hiroshi Komiyama	Mr. Komiyama, who has served as President of the University of Tokyo, as well as in a variety of distinguished positions, shared his beneficial recommendations concerning efforts to utilize renewable energy and initiatives to procure raw materials, etc., capitalizing on his outstanding knowledge and wealth of experience in a wide range of disciplines, including chemical engineering, the global environment, and natural resources and energy. He also provided thorough supervision from an independent standpoint.	100%
Kuniharu Nakamura	Mr. Nakamura shared his beneficial recommendations concerning (i) proper compliance with revised laws and regulations and (ii) research and development budget allocation, and initiatives on new research, etc., capitalizing on his management experience at SUMITOMO CORPORATION, a general trading company, and based on his prominent knowledge of and abundant experience in international business in a wide variety of fields. He also provided thorough supervision from an independent standpoint.	100%
Michael H. McGarry	Mr. McGarry shared his beneficial recommendations on business conditions in the U.S. and the importance of following up on investment projects, etc., capitalizing on his management experience at PPG Industries, Inc. in the U.S., a global leader in paints and coatings. The Director leveraged his outstanding knowledge and wealth of experience in a broad range of chemical industry fields to support and guide the management team. He also provided thorough supervision from an independent standpoint.	100%
Mariko Hasegawa	Ms. Hasegawa shared her beneficial recommendations on how to secure human resources and strengthen the education and training system for utilizing AI as well as how to streamline business operations, capitalizing on her outstanding knowledge and wealth of experience in a variety of fields, such as having served as President of the Graduate University for Advanced Studies, SOKENDAI and a member of the National Public Safety Commission, built upon her many research achievements as a researcher in natural anthropology. She also provided thorough supervision from an independent standpoint.	100%
Takashi Hibino	Mr. Hibino shared his beneficial recommendations on matters such as the approach to policy-held shares amid ongoing reductions and the importance of disclosing non-financial information, including a human capital strategy, etc., capitalizing on his management experience at Daiwa Securities Group Inc., a global securities company, and based on expert knowledge and abundant experience in the financial business. He also provided thorough supervision from an independent standpoint.	100%

Outside Audit & Supervisory Board Member		Board of Directors Meetings	Audit & Supervisory Board Meetings
Yoshihito Kosaka	At the Audit & Supervisory Board meetings, Mr. Kosaka shared his comments from a finance and accounting specialist's point of view. In addition, he received reports from Directors, Corporate Officers and employees, etc. on the execution of duties and conducted investigations of offices/factories and subsidiaries of the Company, thereby exercising his audit function thoroughly.	100%	100%
Mitsuko Kagami	At the Board of Directors meetings, Ms. Kagami shared her comments on important points regarding contracts. At the Audit & Supervisory Board meetings, she also shared her comments from a legal specialist's point of view. In addition, she received reports from Directors, Corporate Officers and employees, etc. on the execution of duties and conducted investigations of offices/factories and subsidiaries of the Company, thereby exercising her audit function thoroughly.	100%	100%
Hiroko Kaneko	At the Board of Directors meetings and the Audit & Supervisory Board meetings, Ms. Kaneko shared her comments from a finance and accounting specialist's point of view. In addition, she received reports from Directors, Corporate Officers and employees, etc. on the execution of duties and conducted investigations of offices/factories and subsidiaries of the Company, thereby exercising her audit function thoroughly.	92%	100%

Risk Management

For more information, please see the "Risk Management" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_foundation/risk/

Risk Management Committee

In 2002, Shin-Etsu Chemical established a Risk Management Committee that has been working to address and eliminate risks surrounding the Company and its operations. In September 2025, the structure of the Risk Management Committee was revamped in order to respond appropriately and promptly to the rapid changes and uncertainties in the business environment in recent years. The Committee is chaired by the President and consists of five members, who are Directors and Corporate Officers, and six assistants. Specific risk initiatives are undertaken by cross-divisional teams (CDTs) consisting of implementation leads and co-implementers, including from Group companies.

The Committee identifies the themes to be addressed and appoints the CDT implementation leads and co-implementers. The Committee then receives reports from the CDTs, evaluates their activities, and provides instructions on action plans and strategies. In this way, the Committee takes the lead in risk management for the Shin-Etsu Group. For FY2025, the Committee has set 10 priority themes, including cybersecurity and raw material procurement risks. The themes taken up by the Committee are added to and revised as appropriate in light of changes in the international and economic situation.

The CDTs have conducted risk investigations and assessments related to their assigned issues, formulated implementation plans, and carried them out for Shin Etsu Chemical and Group companies in Japan and overseas. The CDTs also promote the formulation of business continuity plans, training, and information sharing. This fiscal year, the CDTs carried out concrete and detailed activities on various assigned issues, including conducting risk-related training for all employees, investigating cybersecurity measures in the supply chain, and surveying the risk management efforts of Group companies.

Risk management initiatives are reported to the Board of Directors, the Managing Directors' Meeting, and the Audit & Supervisory Board.

Composition of the Risk Management Committee

Risk Management Committee	Committee members (5 people)	President (Chairperson), Directors, Corporate Officers
	Assistants (6 people)	Head office departments, Plants, Research centers, Group companies
Cross-Divisional Team	Implementation leads (12 people)	Department managers
	Co-implementers (13 people)	Head office departments, Plants, Research centers, Group companies

Risk Management Regulations

The Company has established Risk Management Regulations that anticipate comprehensive risks that may arise in the course of the Shin-Etsu Group's business activities from a long-term perspective and has established a risk management system and responses to any risks that materialize.

Risk Management Procedures

Risk management is carried out following the procedures of the PDCA cycle shown in the diagram below in accordance with the characteristics of each risk.

1 Risk Identification
Identify and recognize the risks associated with each department's business and operations.

2 Risk Assessment
Evaluate the magnitude, scope, etc. of risks identified and recognized.

3 Risk Control
Control the size, scope, etc. of the assessed risk.

4 Emergency Response Creation of Manuals
Establish responses in the event that risk events occur.

5 Audit and Inspection
Evaluate the current situation and check measures, etc.

Risks Anticipated in the Risk Management Regulations

Risks caused by economic factors | Risks caused by social factors | Risks caused by governmental factors | Risks caused by scientific and/or technical factors | Risks caused by natural environmental factors and/or disasters | Other

- Business risks
- Research and development risks
- Production and quality management risks
- Sales risks
- Purchasing risks
- Finance and accounting risks
- Personnel and labor risks
- Environment and safety risks
- Information management risks
- Intellectual property risks
- Fraud risks
- Country risks
- Legal risks
- Other

Risk factors related to business activities
Risk factors not related to business activities

Activities of the Risk Management Committee in FY2026

The Risk Management Committee, including its CDTs, is preparing for risks that could affect management and business activities and undertaking multifaceted, cross-divisional initiatives aimed at eliminating or mitigating risks and minimizing potential damages.

In light of the volatile international situation in FY2026, the Committee will continue to focus its efforts on preventing and strengthening measures against the following risks, as we did in FY2025:

- Geopolitical risk
- Cyber risk
- Business continuity planning (BCP)
- Procurement of hard-to-obtain raw materials
- Expansion of risk management systems to subsidiaries and affiliates, etc.

In addition, the Committee will check the status of efforts to address these risks in each of the core business divisions and Group companies and proceed with necessary countermeasures together with the relevant business unit. The Risk Management Committee will continue to support the sustainable development of the Company by eliminating risks before they occur and enhancing risk preparedness.

Information Security

For more information, please see the "Information Security" section of the Shin-Etsu Chemical Sustainability website.
https://www.shinetsu.co.jp/en/sustainability/esg_foundation/security/

While effective use of information assets in daily business activities is essential, risks arising from improper management—such as information leaks—are also increasing. Under such circumstances, the Group recognizes the importance of its information assets and rigorously ensures their proper management and use.

Initiatives for Information Asset Management

The Group protects, manages, and operates information assets in accordance with our Information Asset Management Basic Policy. Furthermore, related rules and regulations such as our Information Asset Management Standards stipulate the details concerning the handling, management, retention period, and discarding of all information related to our customers and suppliers. We have also formulated the Standards for Preventing Technology Leaks. The Shin-Etsu Chemical head office and information management local offices established in each region play a central role in regularly checking the handling of information assets through audits targeting all departments company-wide.

Protection of Personal Information

In order to properly protect personal information in accordance with Japan's Act on the Protection of Personal Information, we have established a Privacy Policy, which is available on our website. We are also working to raise employee awareness and promote understanding through training and other means in order to ensure the appropriate handling and protection of personal information. Group companies in the EU area also comply with the EU's General Data Protection Regulation (GDPR)*.

*The General Data Protection Regulation stipulates on the handling and transfer of personal information. EU member countries had their own regulations to protect personal data, and these regulations were unified under the General Data Protection Regulation in May 2018.

Cybersecurity

To defend against cyberattacks, the Group implements a multi-layered defense, with comprehensive security countermeasures defending our systems at each access stage—entrance, internal, and exit. Specifically, we implement entrance security countermeasures such as sandboxing*1; internal security countermeasures such as antivirus, EDR*2, and access log monitoring; and exit security countermeasures such as Web Access Control and monitoring of data transfer sites, all aimed at enhancing our defenses.

We also maintain a 24/7 Security Operation Center (SOC) to strengthen our monitoring capabilities. We protect important data and equipment from cyberattacks by physically separating the factory automation network from the office automation network. Furthermore, we conduct annual training sessions that simulate the latest targeted attack email tactics to improve our employees' security awareness and response capabilities.

In 2025, we designated August as Cybersecurity Month and hosted lectures by external experts. Approximately 630 Shin-Etsu Group employees from Japan and abroad participated in the online conference, which covered topics such as ransomware and security incident response. We have also been conducting cybersecurity surveys of our major suppliers since October 2025, and are working to maintain and improve the level of cybersecurity across our supply chain.


Cybersecurity lecture (Shin-Etsu Chemical Head Office, August 2025)

*1 A virtual environment that detects programs that act like viruses when using e-mail.
*2 Endpoint Detection and Response. A system that monitors programs that perform suspicious actions on PCs or servers.