



Outside Director  
**Kuniharu  
Nakamura**



Outside Director  
**Mariko  
Hasegawa**



Outside Director  
**Hiroshi  
Komiya**

## Interview with Outside Directors

# Positioning Shin-Etsu Chemical to achieve further growth by delivering value to the world

Prior to the adoption of the Japan's Corporate Governance Code (which came into effect in 2015), Shin-Etsu Chemical Co., Ltd. (hereinafter referred to as "the Company") invited Frank Popoff, former Chairman and CEO of The Dow Chemical Company (US), to serve as an outside director in 2001. Since then, the Company has continued to steadily strengthen its corporate governance system with an emphasis on external perspectives, for example by inviting leading figures from various fields to serve as outside directors. As it works to further strengthen governance, the Company currently has five outside directors who provide a wide range of opinions. Here, the five outside directors discuss a wide range of management-related themes centered on issues discussed at Board of Directors meetings, including share buybacks and other capital policies, human resources, and environmental initiatives.



Outside Director  
**Takashi  
Hibino**



Outside Director  
**Michael H.  
McGarry**

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### ■ Evaluation of business performance for the fiscal year ended March 31, 2025

**Mr. McGarry** In my judgment, the management team did a good, solid job in the fiscal year ended March 31, 2025. This fiscal year's business performance did not rise to the level of recent years, when record highs were posted year after year. On the other hand, the strong business performance that was achieved deserves high praise given the very challenging business environment, including inventory adjustments in the semiconductor market and the slump in the U.S. housing market. In addition, I am very pleased with the decision to continue to invest in the Company, not just focusing on single-year performance, but also aiming for long-term success even in a very tough market environment.

**Mr. Nakamura** Given that the chemical industry is still facing tough times, I believe these results demonstrate the Company's ability to execute well. This is proof that the Company has the earning power to generate a certain level of revenue under any circumstances. Also, from a medium- to long-term perspective, I feel that considerable progress has been made in the effort to create a third pillar of business following PVC and semiconductors.

**Mr. Hibino** I too was very impressed with the Company's performance in FY2024, with both sales and profits increasing despite the difficult external environment. I was also impressed that the Company achieved higher sales and profit while pursuing strategies related to future fiscal years, not just single-year performance.

**Mr. Komiyama** Mr. Nakamura used the term "earning power," so I would like to comment on our earning power in terms of its technical aspects. To make PVC, which is the main source of our earnings, we pyrolyze ethane to produce ethylene, and we electrolyze salt to produce chlorine. PVC polymer is ultimately made from ethane and salt as raw materials, and Shintech does it using its integrated production system. Integrated production at the same location facilitates logistics and shortens the pipeline, thus increasing investment efficiency. In addition, the effective use of waste heat and similar resources increases the efficiency of energy use. Our technical prowess in this field is the best in the world. This integrated production in large-scale plants supports the competitiveness of our PVC as a commodity product.

However, our true strength is that we are constantly improving the various processes within the plants, rather than simply resting on the laurels of our high-volume production in large-scale plants. The result is highly efficient production, not just in terms of scale but also in each individual process. I believe that is the source of the Company's competitive edge, which helps us maintain our earning power even under challenging circumstances.

**Mr. Nakamura** I have always felt that the Company sets high standards and does not readily compromise on performance. It is this passion for the craft of manufacturing that ultimately leads to strong business results.

### ■ Strengthening corporate governance

**Mr. Hibino** Regarding the composition of the Board of



Directors, companies listed on the Tokyo Stock Exchange Prime Market are required to have outside directors comprise at least one-third of their board members. It has essentially become a rule. Under these circumstances, our situation is quite satisfactory, as our outside directors already comprise a majority of the Board. In addition, when looking at the backgrounds of our outside directors, I believe that consideration has been given to diversity, including race and gender.

**Mr. McGarry** I think the current composition of the Board of Directors is very good. However, if we are to move closer to international standards in the future, it will be necessary to invite additional experienced people to join the Board of Directors. I believe that doing so will help elevate the Company to the next level.

**Mr. Nakamura** We have seen an increase in the number of new outside directors, including the appointment of Mr. Hibino last year. I feel that this is a very positive change as it has opened up new perspectives in our discussions. Also, a proposal to hold a forum exclusively for discussions

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among outside directors came to fruition, and we have met several times since last year. Various requests were raised during these meetings and we were able to convey them to our management team. I believe that these activities have increased the commitment of the outside directors to the Company.

**Mr. Komiya** I too noticed the changes brought about by the increase in new outside directors. For example, Mr. Nakamura has opinions on a wide range of subjects, Mr. Hibino is well versed in capital markets, and Mr. McGarry has extensive global management experience. Furthermore, Ms. Hasegawa has a unique perspective on matters we might otherwise overlook. The increase in the number of people with very distinctive skills has stimulated our discussions. With this breath of fresh air, I believe the current Board of Directors is moving in an even better direction.

**Ms. Hasegawa** As for myself, I would like to make various contributions to the discussion, more than I have done so far, including on the topic of diversity. To do this, it's important to know the situation on the ground. I have suggested



that it is important for outside directors to have the opportunity to visit production plants and other work sites. That is apparently going to happen early this year. I would like to contribute to further enhancing the effectiveness of the Board of Directors by combining the realities observed on the ground with the experiences and insights I have cultivated over time.

### ■ Responding to rapid changes in the international situation

**Mr. Nakamura** When the Trump administration took office, we were concerned about the rapid changes in tariffs and other issues, and we discussed them within the Company. In reality, it is difficult to predict what will happen. However, precisely because the impact is difficult to predict, it is important for corporate management to envision various scenarios and evaluate the impact of each. We conducted extensive research and discussion to quickly identify the policies that we should pursue as a company.

**Mr. McGarry** I believe it is important to maintain a long-term perspective that considers various possibilities in the future while addressing short-term challenges brought about by changes in the business environment. I believe that investing in the U.S. over the long term is in the best interest of the Company, its employees, and its shareholders. The company's management team understands this very well.

**Mr. Hibino** Although the policies put forward by governments overseas can be difficult to predict, it is still important to manage business with a medium- to long-term



perspective. To strengthen our ability to rapidly deliver products that meet the needs of customers around the world, I believe that our policy of steadily advancing product development and investment in the U.S., as we have done up until now, is the right one.

### ■ Capital policy for the future

**Mr. Hibino** We have announced the implementation of a 500 billion yen share buyback, which is unprecedented in scale for the Company. I thought this was an excellent business decision as well as a timely one.

**Mr. McGarry** I also commend this share buyback as a clear indication of management's desire to strengthen shareholder returns. The Company generates substantial cash flow each year. I think we need to think carefully about this cash from both a short-term and long-term perspective. Even if the cash on the balance sheet belongs to shareholders, it is important to avoid an excessive focus on share buybacks and dividend payments when considering the long-term interests of shareholders. I still consider the

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Company a growth stock. It is important to make long-term growth investments.

**Mr. Hibino** In recent years, dividends and share buybacks have increased rapidly in Japan's capital markets. On the other hand, capital investment, which leads to growth, has not increased, which is viewed as a problem. Companies need to reward current shareholders while also achieving growth for future shareholders. Dividends and share buybacks should be balanced with capital expenditures and other investments. In that sense, I believe that our current strategy, which includes a 500 billion yen share buyback while continuing to make large-scale capital investments, is a very well-balanced one.

### ■ Achieving carbon neutrality

**Mr. Komiya** Our sustainability initiatives cover a number of themes. Among these, I have been advocating for environment-related initiatives in particular within the Company. This is similar to what I explained in the discussion about the Company's earning power. To achieve carbon neutrality, the most important thing is to improve the efficiency of energy use, which is the key to reducing CO<sub>2</sub> emissions. Furthermore, it is important not only to improve our own manufacturing processes, but also to develop products that can improve the efficiency of energy use in our customers' manufacturing processes.

As an example of a product that can improve the efficiency of energy use in our customers' manufacturing processes, we have developed a silicone rubber product that eliminates the need for customers to perform a reheating process to remove impurities. In fact, it seems that this

product has received high praise from customers. I think it would be fantastic if, by increasing the number of such products, we could increase the efficiency of energy use not only of the Company but of the entire chemical industry, and move closer to carbon neutrality.

Compared to other companies in the same industry that make similar products, we are probably the best in the world in terms of energy savings. Carbon neutrality is not something that a company can achieve alone. Recognizing that this is a common issue for all of society, I would like the Company to act more than ever as a leader in the industry and take the lead in energy-saving activities around the world.

### ■ Human resources

**Mr. Nakamura** Like the environment, the participation and advancement of women is another challenge the Company must address as part of building its foundation. Unfortunately, the reality is that the percentage of female employees in the Company is not very high. There may not be a quick fix to this issue. I would like to start by understanding the Company's personnel system itself before I make further suggestions.

**Ms. Hasegawa** As part of my efforts to promote the participation and advancement of women in the Company, I was given the opportunity to speak with them in March 2024. The comments from those who attended were valuable, and reminded me of the importance of the opinions of people who are actually doing the work. I feel that we need more such opportunities in the future.

I think there is a lot of pressure on companies to



achieve diversity. But why are there so few female managers? It's not because men and women developed their careers in equal numbers from a young age but then the women were not promoted. Rather, the reason is that women were not encouraged in that direction in the first place. We need to face this fact squarely and think about it.

Furthermore, when it comes to promoting women's participation and advancement, there has been a lack of consideration of why diversity is necessary. I heard about a study that found that teams with female members were able to invent patents with higher economic value than teams without female members. It is important to promote diversity with the understanding that it is not something that is forced upon us by others, but rather an effective means of strengthening ourselves.

The first step in addressing the current situation is to improve the percentage of women in the hiring process. A world where women make up a certain percentage or more of managerial positions will not be achieved until we increase the number of women hired to a certain extent. We need to recognize that this is a ten-year mission.

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**Mr. Nakamura** On the other hand, when it comes to developing young talent, when I read the Company's newsletters I see a lot of positive comments from young people. It looks very promising. Efforts to enhance the capabilities of such people are very important. However, employees may be hiding their true feelings. In such cases, I think that management team should actually go to the workplace, find out what people really think, and then consider what to do about the personnel system.

### ■ Toward further enhancement of corporate value

**Mr. McGarry** I believe the Company still has room to grow. As we grow, what kind of value will we provide to society to enhance our corporate value? First and foremost, it is important to provide products that improve the lives of people around the world. Specifically, PVC. The PVC business makes it possible to deliver clean water to people around the world. This might be hard to appreciate in Japan, but nothing in the world is as important as clean water. Continuing to be a key player in this field is directly linked to



creating significant value for society.

Another example is our contribution to the evolution of technology. A clear example is our contribution to the evolution of AI. Chip manufacturing would not be possible without our silicon wafers, photoresists, photomasks, and other products in the electronic materials sector. As we continue to refine our technology in this area, the world will be better positioned for technological advancement.

**Mr. Komiya** We are a materials company. Ultimately, our customers will utilize materials with various functions to create products, but as a starting point, it is necessary for us to continue working on developing ever more efficient materials.

Our secret weapon in this regard is an initiative called materials informatics (MI) that utilizes AI. MI uses information science to dramatically improve the efficiency of materials development. It is important to harness the power of AI to further develop logical manufacturing capabilities, rather than relying only on intuition and experience. I believe that doing this will significantly improve our competitiveness, especially in the functional products business, which is characterized by small-lot production of a wide variety of products.

**Mr. Hibino** The basis of our high profitability is what we call differentiation. For example, for a commodity-type product like PVC, our differentiation is that we continue to achieve excellent cost competitiveness at our plants in the U.S., while in our semiconductor-related business, our differentiation is that we maintain a system that can reliably provide cutting-edge products in a timely manner.

To maintain these advantages, ultimately the most

important factor is people. We need to assemble the diverse human resources needed to maintain our differentiation and ensure that they remain highly motivated to do so. I hope that this Shin-Etsu spirit, which we might call "Shin-Etsu-ism," will continue to permeate every corner of the Company.

**Mr. Nakamura** When I became president of Sumitomo Corporation, I was told that the only thing I must not change was the company's management philosophy and business spirit. I passed that on to my successor as well. In a long-lasting company, there are always some things that should not be changed. That's why I believe that identifying what must never change and adhering to it will lead to sustainable enhancement of corporate value at Shin-Etsu Chemical too.

**Ms. Hasegawa** The Company has built plants in various locations, including Shin-Etsu Chemical's plants in Naoetsu, Takefu, Gunma, and Kashima. I think it would be great if our presence could have a positive impact on the entire town and contribute to the local community beyond just building a plant and creating local jobs. This kind of engagement would revitalize the community and change the way people view our employees, ultimately leading to an increase in our corporate value.