

Shin-Etsu Chemical Co., Ltd.	
Summary of Telephone Conference on Financial Results for the First Three Quarters Ended December 31, 2018	
Date	Tuesday, January 29, 2019 16:00–17:00
Venue	Shin-Etsu Chemical Co., Ltd.
Attendees from the Company	<ul style="list-style-type: none"> • Yasuhiko Saitoh, Representative Director – President • Masahiko Todoroki, Senior Managing Director, In charge of Semiconductor Materials Business • Toshiya Akimoto, Managing Director, In charge of Public Relations • Toshiyuki Kasahara, Director, General Manager of Finance & Accounting Department • Yukihiro Adachi, General Manager of Public Relations Department
Reference material	Consolidated Financial Results for the First Three Quarters Ended December 31, 2018 / Financial Summary for the Nine Months Ended December 31, 2018

* This memo is a summary of dialogue exchanged in the telephone conference.

Greeting and summary of financial results (President Yasuhiko Saitoh)

- In the first nine months ended December 31, 2018, the Company posted consolidated net sales of ¥1,206.8 billion (up 14% year on year), operating income of ¥324.6 billion (up 33% year on year), ordinary income of ¥329.4 billion (up 32% year on year) and net income attributable to owners of parent of ¥242.1 billion (up 40% year on year). The Company achieved record-high results for all items.
- In the third quarter (three-month period), net sales came to ¥415.1 billion (up 13% year on year, up 2% quarter on quarter) and operating income was ¥115.3 billion (up 33% year on year, up 1% quarter on quarter). Operating income of each business segment when compared to the result of the same period in the previous fiscal year was as follows: PVC/Chlor-Alkali up 26%, Silicones up 24%, Specialty Chemicals up 19%, Semiconductor Silicon up 52%, Electronics & Functional Materials up 20%, and Processing, Trading & Specialized Services up 60%.
- Higher income in PVC/Chlor-Alkali was attributable to improved spreads. Silicones and Semiconductor Silicon posted higher income primarily as a result of positive price-based effects while Electronics & Functional Materials recorded higher income as a result of positive volume-based effects.
- No revision has been made to the operating forecasts and the dividends for the full-year ending March 31, 2019 since the upward revisions made on October 26.

Briefing of results summary by segment (Yukihiro Adachi, General Manager of Public Relations Department)

➤ PVC/Chlor-Alkali Business

Net sales ¥399.3 billion (up 9% year on year), operating income ¥90.9 billion (up 39% year on year)

- Shintech in the U.S. continued to maintain high levels of shipments of both PVC and caustic soda in the nine months between January and September. Given the favorable supply-demand environment, Shintech also significantly expanded its business results.
- Shin-Etsu PVC (Netherlands) continued to operate stably in the nine months between January and September.
- Domestic shipments decreased due to the effects of the large-scale preventive maintenance conducted.

➤ Silicones Business

Net sales ¥173.6 billion (up 14% year on year), operating income ¥45.8 billion (up 19% year on year)

- The segment's business results improved as a result of price adjustments made for both general-purpose and functional products while meeting strong worldwide demand.

➤ Specialty Chemicals Business

Net sales ¥92.3 billion (up 5% year on year), operating income ¥20.9 billion (up 8% year on year)

- In the area of cellulose derivatives, products for pharmaceutical use continued to show strong shipments while construction materials and coating products also performed steadily.
- Pheromone products and POVAL products were also favorable.

➤ Semiconductor Silicon Business

Net sales ¥285.6 billion (up 27% year on year), operating income ¥103.9 billion (up 57% year on year)

- Business results showed significant growth, contributed by ongoing strong shipments and product price adjustments.

➤ Electronics & Functional Materials Business

Net sales ¥172.6 billion (up 12% year on year), operating income ¥52.4 billion (up 15% year on year)

- In the rare earth magnets business, products for automotive applications continued to show strong shipments although inventory adjustments were seen in some areas, such as FA and data centers, from around November last year.
- Photoresist products and photomask blanks performed steadily.
- In the business of optical fiber preform, sales at our joint-venture companies in China were firm despite signs of a slowdown in optical fiber demand from about October last year.

➤ Processing, Trading & Specialized Services Business

Net sales ¥83.1 billion (up 11% year on year), operating income ¥10.5 billion (up 26% year on year)

- Shipments of semiconductor wafer-related containers were strong at Shin-Etsu Polymer Co., Ltd.

Supplementary explanation on the operating forecasts for the year ending March 31, 2019

- Capital investments for the fiscal year are forecast to be ¥250.0 billion and depreciation and amortization are expected to total ¥135.0 billion, unchanged from the initial forecasts.

Q&A Session

<PVC/Chlor-Alkali>

Q	What is the status of Shintech from the July–September quarter through the October–December quarter?
	<ul style="list-style-type: none"> • Shintech carried out large-scale preventive maintenance in the October–December period. In preparation for the preventive maintenance, Shintech worked to build up inventory and restrained shipments around September; these actions had a moderate impact on the results of the third quarter (July–September). • The preventive maintenance had an impact on the results of the October–December quarter. Other than the impact from preventive maintenance, there was no particular change.
A	<ul style="list-style-type: none"> • The caustic soda market was bearish worldwide in the latter half of 2018, particularly toward the year-end. This, however, did not impact us very much in North America. The new year began under this market sentiment and we announced price increases in light of expectations that the issues in India (customs clearance issue) and in Brazil (leading user issue) from last year would be resolved in early spring. We are working on these matters. The world’s caustic soda demand has been relatively stable. We expect that demand will be strong once the regional issues are resolved. • Shipments of PVC were steady in January, and February orders are completely filled. In February, we laid out a 4 cent price increase in North America. Springtime demand is one of the seasonal characteristics of the PVC market and raising prices is a strategy often taken before an expected rise in demand. • We project that production for the January–March quarter of 2019 will be more favorable than that in the same period a year earlier when we were affected by the cold wave.
Q	When will Shintech’s ethylene plant start operation?
A	<p>Mechanical completion (completion of construction of facilities) has been achieved for the most part.</p> <p>We are currently in the commissioning phase (before start-up) and are in the process of steadily making alterations and fine-tuning any flaws found in the course of the work thus far.</p> <p>Since this is our first ethylene plant, we place top priority on safety and are proceeding steadily instead of being hasty.</p> <p>Depreciation begins upon the start of commercial production at the plant.</p>

<Silicones>

Q	What is the status of the silicones business?
A	<p>There is no material change in the status of the October–December quarter compared to that of the July–September quarter.</p> <p>Most recently, although prices of some general-purpose products dropped, demand has not declined and the business remains generally favorable.</p>

<Semiconductor Silicon>

Q	What are the current market trends?
A	<ul style="list-style-type: none">• (Overall wafer market): Shipments in the October–December quarter of 2018 increased from the same period in the previous year. Although growth appears to be slowing down somewhat considering that shipments were almost flat compared to the results of the preceding July–September quarter, we can say that the upward trend continues on a year-to-year basis. Looking at the entire year from January to December 2018, while shipments continued to be at high levels, the growth rate weakened from a year earlier.• The current status differs greatly depending on the diameter size. <p>(150 mm or smaller): Demand remained at high levels for more than 18 months from 2017. However, the conventional move to reduce inventories that were built up upon entering the slow-demand season in the latter half of the year is becoming more apparent. The 150 mm or smaller wafers have entered a downward phase and we expect that harsh conditions will continue through the January–March quarter.</p> <p>(200 mm): The 200 mm wafers come in a variety of types and are sold to a large number of users. Therefore, the situation varies depending on customers. We expect that demand will remain weak until around spring.</p> <p>(300 mm): Demand was extremely strong in the October–December quarter as in the July–September quarter. Looking at the current status, we view that demand for wafers will likely be impacted by the slump in the logic device sector mainly for smartphones and a rapid slowdown of demand associated with the oversupply in the memory device sector. That said, some projections indicate that memory device manufacturers will resume capital investments in expectation that demand will improve in the latter half of the year and be strong in 2020 and thereon. In any case, we view that demand will fluctuate depending on the macroeconomic conditions.</p>

Q	Will the Company review long-term contracts?
A	<ul style="list-style-type: none"> • The Company continues to take steps in line with each contract. • Contracts differ from user to user but they all set forth elements and terms, including volume, pricing and period. Each contract is finalized based on discussions between parties held over time. The Company sees that each user also respects the contents of the contract.
Q	How do the shipment trends by diameter size look?
A	<ul style="list-style-type: none"> • We plan to ship 300 mm wafers according to the terms of contracts. • We continue to be in full production of 200 mm wafers. They come in various types and demand is strong namely for wafers used in power semiconductors and high-speed communication devices. Shipments for some products are limited to capacity.
Q	How about the pricing trends by diameter size?
A	<ul style="list-style-type: none"> • Prices for 300 mm wafers will rise in both 2019 and 2020 if foreign exchange factors are excluded. • We have concluded quite a high ratio of contracts for 200 mm wafers. The contents and period of the contract differs from user to user. The rate of price increase for 200 mm wafers in 2019 will likely be smaller than that for 300 mm wafers. • Demand for 150 mm or smaller wafers is expected to be on a gradual decline. The Company does not plan to lower prices to secure volume at this point.
Q	What is the status of the capacity reinforcement plan for 300 mm wafers?
A	<ul style="list-style-type: none"> • Although demand for 300 mm wafers is currently declining somewhat, we view that it will turn upward from the latter half of this year when investments in the memory device sector are resumed. Production equipment for wafers still has a long delivery time and we do not intend to delay capital investments at this point. • There is no change whatsoever to our basic policy of pursuing the step-by-step facility expansion according to contracts. We will continue to make investments sufficient to cover the contract volumes in both 2019 and 2020.
Q	What is the future outlook for 300 mm wafers?
A	<p>Demand projections for 300 mm wafers are impacted by a few factors.</p> <p>One is based on the view that prices of memory devices have remained at a high level over the past two years, causing the demand among set manufacturers to be slightly suppressed. We will keep an eye on pricing strategies of memory device manufacturers going forward.</p> <p>Another factor is the changing aspects in the NAND and DRAM bit growth that have become apparent in the past year or two. DRAM miniaturization has become quite tough to achieve and new line installations are likely needed to cover the demand for bits which is expected to grow</p>

	going forward. Some point out that 3D implementation for NAND has progressed more than expected, causing demand and supply to reverse. While it is unknown whether the latest technology will drive the current 90-some layers to shift to 120 layers or even further in the future, we believe NAND manufacturers are exploring the best option for increasing the bit demand by taking into account the level of technical difficulty and the associated costs.
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<Electronics & Functional Materials>

Q	How is the demand for optical fiber preforms?
A	While demand adjustments for optical fiber are being made in China, demand is strong in other regions. The future demand level will depend on how long the adjustments in China will continue and on the order status of three state-run companies there which are the leading customers. We view that demand will recover if, based on the policy of the Chinese government, incremental investments are made in the communication sector to underpin the economy. We are keeping a close watch on how the Chinese government manages economic conditions. Considering, however, the status of 5G investments among other factors, there is no change in the direction in which fiber installations are headed, and we understand that inventory and production adjustments are being made under such circumstances.

<Company-wide>

Q	Will there be any changes to the full-year forecasts?
A	We have not reviewed the full-year forecasts at this point. With two more months in this fiscal year, we should take certain steps and concentrate on achieving the projection targets announced.
Q	What is your policy on shareholder returns?
A	<ul style="list-style-type: none"> • (In regard to share buyback): I stated at our financial results briefing three month ago that we were studying share buyback. I would like to add that we are not studying it just for the sake of studying it. • (In regard to dividends): Our dividend policy has been for our shareholders to receive dividends steadily in a long run. The payout ratio of 35% I referred to last year represents the average for the past 10 years. I did not mention the number with the intention of raising the payout ratio to that level at once. <p>We elevated the dividend forecast when we released our 2nd quarter results. When it comes to dividends, we will abide by our policy of stable dividends on a long-term basis going forward.</p>