Shin-Etsu Chemical Co., Ltd.
Summary of Financial Results Briefing for the Fiscal Year Ended March 31, 2019

Date	Friday, April 26, 2019　16:00 – 17:00
Venue	Asahi Seimei Ohtemachi Building, 27th Floor
Attendees from the Company	・Chihiro Kanagawa, Representative Director – Chairman ・Yasuhiko Saitoh, Representative Director – President ・Toshinobu Ishihara, Senior Managing Director, In charge of New Functional Materials Business, Special Functional Products Business ・Susumu Ueno, Senior Managing Director, General Manager of Silicone Division ・Masahiko Todoroki, Senior Managing Director, In charge of Semiconductor Silicon Business ・Toshiya Akimoto, Managing Director, In charge of Public Relations ・Toshiyuki Kasahara, Director, General Manager of Finance & Accounting Department ・Yukihito Adachi, General Manager of Public Relations Department
Reference material	Financial Summary for the Fiscal Year Ended March 31, 2019

* This memo is a summary of the presentations made and the Q&A session held at the financial results briefing meeting.

[Greeting (Chairman Chihiro Kanagawa)]

- The Company achieved record-high results for both sales and profit for the fiscal year ended March 31, 2019.
- Earnings were driven mainly by Shintech Inc. in the U.S. and the Semiconductor Silicon Business.
  The Silicones Business and Other Segments achieved increases in both sales and profit.
- With regard to dividends for the fiscal year ended March 31, 2019, the total annual dividend per share is forecasted to increase 60 yen per share from the previous fiscal year to 200 yen per share.
- The Company will make timely and appropriate capital investments by leveraging its sound financial position and aims to achieve further growth.

[Summary of financial results (President Yasuhiko Saitoh)]

- In the fiscal year ended March 31, 2019, the Company posted consolidated net sales of ¥1,594 billion (up 11% year on year), operating income of ¥403.7 billion (up 20% year on

year), ordinary income of ¥415.3 billion (up 22% year on year), and net income of ¥309.1 billion (up 16% year on year). The Company achieved record-high results for all items and a profit increase for the ninth consecutive year.

- Sales and profit increased in all business segments. The record-high profits were mainly driven by three business segments: The Semiconductor Silicon Business (up 42% year on year), the PVC/Chlor-Alkali Business (up 14% year on year), and the Silicones Business (up 13% year on year).
- Wider spreads between sales price and raw material cost were the key contributing factor for PVC/Chlor-Alkali. Silicones saw primarily positive sales volume-based effects in the April-June quarter plus positive price-based effects in the July-September quarter. Sales prices of general-purpose products declined from the beginning of 2019, but sales volumes were maintained. In the Semiconductor Silicon Business segment, improved sales prices were the key contributing factors. In the Electronics & Functional Materials Business segment, mainly volume-based effects were evident.
- Business results in 4Q were affected by factors specific to the period: (i) Large-scale preventive maintenance at Shintech Inc. from October to December; (ii) Inventory preparations before regular preventive maintenance at the Naoetsu Plant and the Gunma Complex; and (iii) Recognition of impairment loss on idle production facilities. The total amount was approx. ¥22.0 billion.
- The capital investment plan announced last year is progressing as planned. Capital investments for the fiscal year ending March 31, 2020 are forecasted to be approx. ¥300 billion.
- The Company decided to buy back shares totaling ¥100 billion in March, and has done most of it (approx. ¥90 billion). The Company pays a great deal of attention to shareholders return, and considers share repurchase as a part of its capital deployment strategy. We will determine future share buy-backs taking into account various factors, such as market and economic conditions and earnings.
- Net income per share was ¥726, with ROIC of 21.5%, up 3.3 percentage points, and ROE of 12.8%, up 0.9 percentage points.
- The Company will pay a total annual dividend per share of ¥200, which is an increase of ¥60 per share from the previous fiscal year of ¥140.
- The operating performance and dividends forecast for the fiscal year ending March 31, 2020 will be disclosed as soon as it becomes possible to do so. We will work on business growth for the fiscal year ending March 31, 2020 based on the financial results for the fiscal year ended March 31, 2019 as a new starting point.
- (The aerial images of construction at the Plaquemine Plant of Shintech Inc. were put on display to present the progress of facility expansion.)

- The premises of the new plant: Land preparation and partitioning of sites have been completed, and piling work is about to start.
- The ethylene plant is ready for start-up.

[Financial results briefing in detail (Toshiyuki Kasahara, Director, General Manager of Finance & Accounting Department)]

- Capital investments for the fiscal year ended March 31, 2019 were ¥240.6 billion and depreciation and amortization were ¥137.5 billion.

  [Breakdown by segment]

  ＊Capital investments (¥240.6 billion):

  PVC/Chlor-Alkali: ¥76.4 billion (mainly investments on the ethylene plant of Shintech)

  Silicones: ¥28.2 billion (Approx. ¥14.0 billion of investments each on domestic and overseas production facilities)

  Specialty Chemicals: ¥18.0 billion (Investments on facility expansion for cellulose derivatives in Japan and Germany)

  Semiconductor Silicon: ¥69.3 billion

  Electronics & Functional Materials: ¥40.1 billion (A new plant for photoresist products (Taiwan), facility expansion for rare earth magnets <Takefu Plant, Vietnam>, facility expansion for optical fiber preforms)

  ＊Depreciation and amortization (¥137.5 billion):

  Depreciation and amortization were up ¥25.5 billion from the previous fiscal year, including an increase in Semiconductor Silicon of ¥21.3 billion.
- Capital investments for the fiscal year ending March 31, 2020 are forecasted to be ¥300 billion and depreciation and amortization are expected to total a little more than ¥160 billion. Assumed foreign exchange conversion rates: US$1/¥109, €1/¥124.
- The average exchange rate during the fiscal year: US$1/¥110.40 (January to December average) and US$1/¥110.90 (April to March average), approximately the same level as for the previous fiscal year.
- FX sensitivity of operating income for the year (the yen's depreciation has a positive effect and the yen's appreciation has a negative effect): US$¥2.6 billion, € ¥0.3 billion.

[Consolidated Statements of Income]

- Selling, general and administrative expenses increased (up approx. ¥8.7 billion) due to increases in direct costs of sales, including transportation costs, of approx. ¥4.0 billion, R&D costs of ¥1.9 billion and personnel expenses of ¥1.9 billion.
- Of non-operating income/expenses, foreign exchange losses: ¥0.2 billion.

- Tax rates: 24.4% (for the fiscal year ended March 31, 2019); Tax rates change to some extent due to changes in the proportion of profits generated in each country and applicable tax credits, and the tax rates for the fiscal year ending March 31, 2020 are expected to be 25-26%.

[Consolidated Balance Sheets]

- Total assets as of March 31, 2019 were ¥3,038.7 billion, up ¥135.6 billion from the end of the previous fiscal year. The substantial increase in total assets, excluding the effects of foreign currency exchange, was ¥173.8 billion.
- Current assets increased ¥68.8 billion. Of the increase in inventories of ¥51.6 billion, an increase in inventories of products and raw materials accounted for approximately 50% each. Of the increase in inventories of products, the increase in wafer inventories accounted for approximately 50%. The increase in raw materials inventories is mainly due to a buildup of inventories for rare earth magnets.
- Fixed assets increased ¥104.0 billion.
- Total liabilities were ¥506.1 billion, with an increase in the total substantial liabilities of ¥22.0 billion. Of this, the increase in other liabilities (¥24.3 billion) is primarily attributable to increases in accounts payable-other and notes payable-facilities related to construction work.

[Q&A Session]

<Company-wide>

Q	What was the method used to buy back the Company's shares in the amount of ¥100 billion? Will the Company repurchase shares on a continual basis?
A	The Company bought back shares owned by Japanese public institutions. We believe that has the same effect as buying back shares on the open market. In addition, we intended to complete the buy-back of shares in a short period of time. There was some speculation that the purpose of buying back shares was to reduce cross-shareholdings, but that was not actually the case. Please understand that the Company takes buying back shares seriously as a part of our capital deployment strategy.
Q	How do you plan to use cash (including for M&A)?
A	We announced a couple of large-scale investments last year and have been steadily undertaking such investments. The investments for the fiscal year ending March 31, 2020 are estimated to be around ¥300 billion. The Company will continue to make aggressive investments to expand its business as well as strengthen its business

	foundation. We are looking into potential M&A deals, but we haven't put any into action so far. Acquisition costs have become too high, so we are taking a cautious stance.
Q	Will you give us the breakdown of the profit decline (factors specific to the Company) by segment in 4Q?
A	(Breakdown of the profit decline of ¥22.0 billion in 4Q due to factors specific to the Company) ・The breakdown of the profit decline is: A decrease of about ¥11.0 billion in PVC/Chlor-Alkali, which is primarily due to preventive maintenance at Shintech; a decrease of about ¥3.0 billion in Silicones, which is primarily due to the recognition of an impairment loss on idle facilities in Thailand; a decrease of about ¥1.0 billion in Specialty Chemicals; a decrease of about ¥6.0 billion in Semiconductor Silicon; and, a decrease of about ¥1.0 billion in Electronics & Functional Materials. ・We do not expect a large rebound in profit from the abovementioned factors.
Q	What are the uses of capital investments in the estimated amount of ¥300 billion yen for the fiscal year ending March 31, 2020?
A	The primary uses of capital investments include the construction of a new plant at Shintech, facility reinforcements based on long-term contracts in Semiconductor Silicon, and investments in Silicones, etc. These are investment projects announced last year and undertaken. New investment projects are also underway.

<PVC/Chlor-Alkali>

Q	What is the outlook for the PVC supply and demand in North America?
A	・Looking at PVC industry statistics for the January-March quarter, demand in North America was weak and dropped 7% year on year. Our shipments were not as weak as those in the industry. The total shipment volume in the industry, including export shipments, declined 1%, while our shipment volume increased 3%. Shipments dropped sharply, in particular, in March. We succeeded in raising the domestic price by 2 cents in February, but the price increase caused a backlash in April. ・Revenue in the January-March quarter decreased slightly year on year, despite the volume growth, due to lower price spreads. The price spreads were also lower in April compared to the level in the previous fiscal year. ・We have confidence in our ability to sell all products produced at full capacity, but we are working seriously to raise prices in order to increase revenue.
Q	What are the future trends in the caustic soda market?

A	・The rebound in the U.S. market will be somewhat later than expected. Meanwhile, we expect that demand for imports in India, which resumed imports, will be almost restored to the previous level next month. ・Demand for caustic soda from India and from a major aluminum manufacturer in Brazil, does not account for a large share of global demand, but has had a psychological impact on the market. We will strive to increase the price of caustic soda by taking advantage of that psychological aspect.
Q	When will the ethylene plant in the U.S. start up? What are the expected economic effects of its start-up?
A	・The ethylene plant is in the process of start-up. We are carrying out commissioning work step by step to verify everything, and the plant will start up before long. ・The spot ethylene price is currently very low, but the spot is only a part of business transactions. The prices of ethylene from in-house production are economically viable compared to contracted ethylene prices, but do not yield large profits. The capital investment for the construction of the ethylene plant was intended primarily to stabilize the business foundation and diversify risk. We believe that the new ethylene plant will bring a large profit if the market price of ethylene rises.

<Silicone resin>

Q	What are the reasons for flat sales and profit decline in 4Q compared to the previous quarter?
A	・Temporary factors, such as recognizing an impairment loss on idle facilities at our production base in Thailand, caused a profit decline of about ¥3.0 billion. ・In addition, falls in the market prices of general-purpose products from the beginning of 2019 impacted sales and profit. However, the prices of general-purpose products have been rebounding since the end of March, which we expect will have a positive impact on profit for the April-June quarter. ・The demand of functional products has been stable.

<Semiconductor silicon>

Q	What is the status of demand for silicon wafers by diameter size for the January-March quarter and the April-June quarter and beyond?
A	・Demand for silicon wafers is currently in the inventory adjustment phase. As for

	semiconductor and IC product demand, demand had grown at an annualized rate of about 7% until around 2016, 15% in 2017, and 10% in 2018, respectively, but demand has been slowing down since around the end of last year. The factors behind the downward demand trend include a slight reduction in capital investments by the data industry, which has driven demand for semiconductors until now, global smartphone shipments, for which increased functionality drove device demand, recorded negative growth for two years in a row, and demand for industrial machinery, which was very strong last year, slumped due to the slowdown in China's economy. ・Due to the impacts of those factors, demand for silicon wafers recorded negative growth in the January-March quarter compared to the results in the October-December quarter. Regarding the current status of demand by diameter size, demand fell most for small-diameter wafers of 150 mm or smaller. Their demand dropped very sharply, due partly to a backlash from large demand growth in the past two years. Demand for 200mm wafers declined second-most, followed by that for 300mm wafers. ・The demand level in the April-June quarter and beyond will be largely affected by two factors: The first factor is a recovery of demand for memory devices. The semiconductor industry will be affected significantly by a resumption of investment by the data industry and the degree of demand growth for smartphones. The biggest factor is when the global macro-economy, which underlies that demand growth, will recover. The second factor is how long it will takes to adjust wafer inventories, which have risen to a level significantly higher than expected due to extra orders placed by device manufacturers and a decline in the production volume of devices. We expect that the recovery of wafer demand will lag slightly behind the recovery of device demand. We expect that wafer demand in the April-June quarter will be on the same level as that in the January-March quarter.
Q	What are the current price trends (contract price and spot price)
A	Comparing prices in the October-December quarter in 2018 with those in the January-March quarter in 2019, our contract prices increased for wafers of all diameter sizes and are expected to increase in all diameter sizes in the April-June quarter. Spot contracts do not account for a large proportion of the Company's contracts, including those for 150-mm or smaller wafers and 200-mm wafers. The Company does not plan to lower prices to secure volume.
Q	What are the factors behind the profit decline from 3Q to 4Q?
A	Broadly speaking, there were three factors: (i) an increase in the amount of depreciation due to an expansion of facilities on a step-by-step basis; (ii) maintenance costs (moving

	facilities in the cleanrooms and replacement of some equipment, etc.) to prepare for a step-by-step increase of capacity in fiscal 2019; and (iii) a decline in sales volume mainly for small-diameter wafers.
Q	What is the status of long-term contracts?
A	・There are some customers with long-term contracts who are asking for a temporary postponement of shipments, but we hold discussions with customers over time and obtain their consent to make shipments within the contract period. ・As for prices, the Company's capital investment for capacity expansion at this time is based on plans worked out with each customer, and the Company will not be able to recover the cost of investments if it lowers prices. We believe that our customers understand that no wafer manufacturer could afford to reinvest if it lowered prices at this time, and we do not plan to lower prices at all. ・The Company's proportion of long-term contracts for 300-mm wafers in 2019 is 95% or more of the volume of orders received. We have already concluded long-term contracts for 2020 with most of our customers, as well as long-term contracts that extend beyond 2020. Both volume and price are fixed for all of our concluded long-term contracts.
Q	What are the demand trends in 2020 and beyond?
A	・Looking at the investment in the data center sector, the planned amount of investment this year is not much different from the amount last year. We expect that users purchased significant amounts of wafers last year to fill a shortage of memory devices. Meanwhile, we hear that accumulated inventories have been greatly reduced. We need to look at the investment in the data center sector separately from the demand of semiconductors, centering on memory devices, to avoid misjudging the situation. ・Regarding customers' views on the demand outlook in 2020 and beyond, some customers are already concerned about the shortage of wafers in 2021 and beyond, while others say they are not thinking too much further at this point. We believe customers will have the same views about the future demand outlook in the second half of this year.
Q	What is the status of investment on silicon wafers (amid a softening supply and demand balance)?

A	・We have secured firm contracts. Although it is unmistakable that the silicon wafer market is currently in an inventory adjustment phase, customers are considering various business developments with an eye to 2020 and 2021. So far, we have not received any proposal to postpone investment based on medium-term decisions. ・We closely watch our customers' financial results announcements and have seen that many customers are projecting that inventory adjustment will bottom out in 2Q of this year and begin to pick up from the second half. We will, therefore, continue making necessary investments to cover volume expansion based on contracts.

<Electronics & Functional Materials>

Q	What are the factors behind the profit decline from 3Q to 4Q?
A	・Inventory adjustments for optical fiber have been continuing and have impacted demand for optical fiber preforms as well. ・Demand adjustments for rare earth magnets have been continuing for industrial equipment applications and the factory automation field.