

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Quarter Ended June 30, 2019

Date	Wednesday, July 24, 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 Silicon 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 Quarter Ended June 30, 2019 / Financial Summary for the Three Months Ended June 30, 2019

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

[Greetings and summary of financial results (President Yasuhiko Saitoh)]

- In the first quarter ended June 30, 2019, the Company posted consolidated net sales of ¥386.2 billion (up 1% year on year), operating income of ¥107.5 billion (up 13% year on year), ordinary income of ¥108.9 billion (up 10% year on year), net income attributable to owners of parent of ¥84.0 billion (up 14% year on year) and net income per share of ¥202 (up ¥29 year on year). ROIC came to 21% (flat year on year) and ROE was 13.6% (up 1 point year on year).
- The Company achieved double-digit increases in profits from the previous quarter in all segments. There were specific factors in the previous quarter. (Profit decline factors: Expenses associated with large-scale preventive maintenance, decreased production, etc. worth ¥11.0 billion at Shintech; impairment loss, etc. of ¥3.0 billion in Thai operation in Silicones; increase in depreciation, etc. of ¥6.0 billion in Semiconductor Silicon.)
- Full-year operating forecasts for the fiscal year ending March 31, 2020 are: consolidated net sales of ¥1,550.0 billion, operating income of ¥405.0 billion, ordinary income of ¥418.0 billion, and net income attributable to owners of parent of ¥314.0 billion.
- The Company forecasts a total annual dividend of ¥220 per share, an increase of ¥20 from the previous year.

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

➤ PVC/Chlor-Alkali Business

[Net sales of ¥122.8 billion (down slightly year on year), operating income of ¥25.3 billion (down 4% year on year)]

- Shintech in the U.S. maintained high levels of shipments of both PVC and caustic soda in the first quarter

(Jan–Mar period) despite some impact of market conditions.

- Shin-Etsu PVC (Netherlands) saw steady shipments in the Jan–Mar period.

- In Japan, the PVC business increase in sales volume since the scale of preventive maintenance conducted was smaller than that of a year earlier.

➤ Silicones Business

[Net sales of ¥56.3 billion (up 1% year on year), operating income of ¥15.9 billion (up 18% year on year)]

- Shipments were firm thanks to efforts made to expand sales primarily of functional products although general-purpose products were affected by a fall in prices.

➤ Specialty Chemicals Business

[Net sales of ¥28.9 billion (down 5% year on year), operating income of ¥7.5 billion (up 10% year on year)]

- In the area of cellulose derivatives, products for pharmaceutical use remained strong although products for construction materials and coating were weak in some regions.

- Shipments of Synthetic Pheromone products and POVAL products were also favorable.

➤ Semiconductor Silicon Business

[Net sales of ¥99.0 billion (up 9% year on year), operating income of ¥39.4 billion (up 31% year on year)]

- Shipments continued to be at high levels despite signs of a slowdown in the semiconductor device market.

➤ Electronics & Functional Materials Business

[Net sales of ¥54.7 billion (down 2% year on year), operating income of ¥16.6 billion (up 4% year on year)]

- In the rare earth magnets business, products for automotive applications, including hybrid vehicles, were strong while products for industrial equipment and HDD were impacted by weaker demand.

- In the photoresist field, ArF resists were favorable.

- Photomask blanks, both leading-edge products and general-purpose products, expanded sales.

- The business of optical fiber preform was impacted by a sudden market deterioration.

➤ Processing, Trading & Specialized Services Business

[Net sales of ¥24.2 billion (down 11% year on year), operating income of ¥3.5 billion (up 18% year on year)]

- Automotive input devices were strong at Shin-Etsu Polymer Co., Ltd. while semiconductor wafer-related containers were affected by inventory adjustments by customers.

[Supplementary explanation on the operating forecasts for the year ending March 31, 2020]

- Assumed foreign exchange rates in operating forecasts for the year ending March 31, 2020: US\$1 = ¥108, €1 = ¥122 from July onward.
- Foreign exchange sensitivity of ordinary income: ¥2.7 billion in US dollars (¥1.7 billion in exports and imports of domestic companies; ¥1.0 billion in conversion by overseas subsidiaries), ¥0.3 billion in euros.
- Capital investments for the fiscal year are forecast to be ¥300.0 billion, unchanged from the initial forecast. Depreciation and amortization are expected to be ¥150.0 billion, lower than the initial forecast due to the impact of a partial postponement to the operation of expanded facilities in the Semiconductor Silicon Business

and other factors.

- Full-year operating forecasts for the fiscal year include a number of fluctuating factors such as demand for products, market conditions and foreign exchange. Please understand that actual results may differ from these forecasts.

[Q&A Session]

<PVC/Chlor-Alkali Business>

Q	What was the market environment of the PVC and caustic soda?
A	<p>(PVC)</p> <ul style="list-style-type: none"> • In the January–June period, Shintech achieved full production and full sales. The sales volume was almost the same as that of the previous year. Meanwhile, according to the statistics of North America including other firms, sales volume dropped 3%, which reflects an increase in Shintech’s share. • With price increases implemented in North America, the PVC market has been stable. Although markets other than North America vary in strength, prices have been maintained. Overall, the PVC market is relatively stable. <p>(Caustic soda)</p> <ul style="list-style-type: none"> • With the issue in India resolved and leading customers in Brazil having resumed operation, the market should be recovering. However, given the excess volume from China, overseas market prices are weak. However, we do not expect the market to continue declining. The caustic soda market is tolerant, and we are fully selling our volume of products. The rest depends on how high we can set our prices, which we are continuing to work on.
Q	What was the status of Shintech in the Jan–Mar quarter and what is the outlook for the Apr–Jun quarter?
A	<p>Movements in the North American PVC market were: up 2 ¢ in February, down 2 ¢ in April, and up 2 ¢ in June. Meanwhile, conditions in the ethylene market are as reflected in spot prices, and the spread has improved to a certain degree. The situation, however, is somewhat weak compared with the level of the previous year.</p>
Q	When will Shintech’s ethylene plant start operation?
A	<p>We are currently in the final adjustment phase. The fact is there are some issues. Since this will be our first ethylene plant, we are putting top priority on safety for the launch. Depreciation expenses for the fiscal year include those related to the operation of the ethylene plant.</p>

Q	What is the status of environmental regulations in China?
A	No PVC plant that went out of business or closed due to environmental regulations has resumed operation in China. We are keeping an eye on the situation to see whether closures are temporary or permanent. Our understanding is that there has been no additional plant closure at this time, and we view that the capacity has remained flat this year from a year earlier.

<Silicones>

Q	What factors contributed to lower revenues and higher income quarter on quarter?
A	<ul style="list-style-type: none"> • The silicones business in Japan that handles a higher percentage of functional products experienced high sales quarter on quarter for both domestic sales and exports. As a result, income also rose. • Meanwhile, overseas sites operate on a different fiscal year and their results for the Jan–Mar period are included in these results for the first quarter. One reason for the decline in sales is the preventive maintenance conducted in Thailand in February. Both production and sales volumes dropped from the previous quarter (Oct–Dec period). In addition, since performance overseas is generally extremely good in the Oct–Dec period, results were not as good for the Jan–Mar period.

<Semiconductor Silicon>

Q	What is the status of the Apr–Jun quarter, outlook for the Jul–Sep quarter and thereon, and factors that contributed to higher revenues and income?
A	<ul style="list-style-type: none"> • The global wafer market in the Apr–Jun period showed negative growth from the same period in the previous year. By diameter size, while demand for 300 mm increased slightly, demand for 200 mm and 150 mm or smaller wafers declined significantly. Compared with the results in the Jan–Mar period, the market on the whole experienced negative growth. By diameter size, the market for 300 mm was almost flat and that for 200 mm and 150 mm or smaller slightly decreased. • It is not easy to forecast the conditions for July and beyond based just on the regular semiconductor circulation theory and the rule of thumb of the electronic device production cycle. Various factors, such as confusion in the supply chain and the associated demand for inventory accumulation, are entwined, which makes it extremely difficult to make projections. We feel that there is also some reaction to the robust semiconductor sector in the past couple of years. We expect to see inventory adjustments for electronic equipment, devices and wafers in this order. Inventory adjustments for wafers will likely require some time. While wafer inventory is still recognized to be in excess, levels have come to vary from customer to customer, giving a mixed picture in the sector.

	<ul style="list-style-type: none"> • The primary reason for the year-on-year increase in income for the first quarter is the recovery in wafer prices.
Q	What is the operation rate for the Apr–Jun quarter?
A	<ul style="list-style-type: none"> • The operation rate was high for 300 mm wafers but that for 200 mm and smaller wafers was lower than the past two years. Since memory manufacturers are weakening their tone regarding a recovery in the latter half of this year, we will respond accordingly. • Inventory levels for the Apr–Jun quarter have been slightly increasing from Jan–Mar levels.
Q	What is the environment of the semiconductor silicon business?
A	<ul style="list-style-type: none"> • Memory bit demand is definitely bouncing back. For example, demand for NAND has been recovering quickly after hitting the bottom in January and DRAM bit demand is also on a moderate recovery path. • Although demand for data center applications was not very strong over the past period of nearly a year, there is a view that some investments may begin in the latter half of the year. We anticipate more active data center investments that would lead to demand for semiconductor devices.
Q	What is the status of long-term contracts (for 300 mm wafers)?
A	<ul style="list-style-type: none"> • In terms of 300 mm wafers, 95 % or more are under long-term contracts in 2019. It is difficult to project at this moment, but we are expecting a high percentage of long-term contracts in 2020 • In terms of long-term contract fulfillment, we received a request for a short-term delay in delivery from some customers and responded as needed. All customers adhere to contract prices. • The contents of long-term contracts are individually determined and therefore are not identical.
Q	What is the approach to capital investments for the semiconductor silicon business?
A	<ul style="list-style-type: none"> • We implement capital investment plans based on discussions with each customer. • Changes in depreciation expenses will depend on the market situation going forward. • We have long been looking into green field investments. Yet we have no choice but to be cautious since the current market conditions are not strong. In addition, wafer manufacturers are expanding.

<Company-wide>

Q	What is the impact of changes in regulations on exports to South Korea?
A	<ul style="list-style-type: none"> • Only certain photoresists among our product lineups are subject to these regulations and we are currently in the process of making an application. We have experience in individually obtaining export permits and are aware of the process. Although our products' sales size is not material at

	<p>the moment, we have been putting effort into them and are therefore working to complete the process as quickly as possible and keep our customers satisfied.</p> <ul style="list-style-type: none"> • It is said that South Korea may be taken off the ‘white list’ or Japan may expand the export curb to additional products. The Company will obviously consider measures, discuss the matter with customers, and take whatever steps are possible at this point. By closely communicating with customers, efforts will be made on both sides.
Q	What is your policy on shareholder returns?
A	Our dividend policy remains unchanged. We expect to distribute dividends “stably over the long term.” I have mentioned a payout ratio of 35% (representing the average for the past ten years) before, and I still refer to that figure today when thinking about the dividend level.
Q	Why was a gain on sales of investment securities recorded?
A	It was recorded as a result of selling some of our so-called cross-held shares.