

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Half Ended September 30, 2019

Date	Friday, October 25, 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 Half Ended September 30, 2019 / Financial Summary for the Six Months Ended September 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 second quarter ended September 30, 2019, the Company posted consolidated net sales of ¥786.5 billion (down 1% year on year), operating income of ¥210.5 billion (up 1% year on year), ordinary income of ¥218.2 billion (up 1% year on year), and net income attributable to owners of parent of ¥165.0 billion (up 4% year on year). ROIC and ROE were almost at the same levels as those of the year before.
- The year-on-year difference (for the July–September quarter) in operating income was mainly due to the weakening of sales prices of products in the PVC/Chlor-Alkali segment and lower sales of optical fiber preform. On a quarter-on-quarter basis (compared with the April–June period), operating income declined in the Semiconductor Silicon segment while it remained at the same level in other segments.
- The interim dividend is ¥110 per share, an increase of ¥10.
- Full-year operating forecasts and dividend forecasts for the fiscal year ending March 31, 2020 remain unchanged from the forecasts announced in July. The progress rate for the first half compared to (income) forecasts was 52%. The Company will carry out the plan steadily to achieve the forecasted targets.

(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 annual dividend forecast is ¥220 per share, an increase of ¥20 from the previous year.)

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

➤ PVC/Chlor-Alkali Business

[Net sales of ¥253.1 billion (down 3% year on year), operating income of ¥51.7 billion (down 13% year on year)]

- Shipments were stable in all three bases — the U.S., Europe, and Japan — despite some impact of market conditions.

➤ Silicones Business

[Net sales of ¥114.7 billion (up 1% year on year), operating income of ¥31.1 billion (up 7% year on year)]

- Shipments were firm primarily for functional products although general-purpose products were affected by a price decline.

➤ Specialty Chemicals Business

[Net sales of ¥58.2 billion (down 3% year on year), operating income of ¥13.8 billion (up 3% year on year)]

- In the cellulose derivatives business, shipments of pharmaceutical-use products continued to be firm although those of products for building and construction applications were weak in some regions.
- Shipments of synthetic pheromone products and POVAL products were also firm.

➤ Semiconductor Silicon Business

[Net sales of ¥196.5 billion (up 5% year on year), operating income of ¥74.5 billion (up 12% year on year)]

- Efforts were made to maintain the shipment level despite a downward trend seen in the semiconductor device market.

➤ Electronics & Functional Materials Business

[Net sales of ¥111.4 billion (down 3% year on year), operating income of ¥33.3 billion (down 2% year on year)]

- In the rare earth magnets business, shipments of products for automotive applications were firm while those of products for industrial equipment and HDD were weak.
- In the photoresist business, ArF photoresists were favorable.
- Photomask blanks posted higher sales primarily in leading-edge products.

- The optical fiber preform business faced tough circumstances due to market deterioration.

➤ Processing, Trading & Specialized Services Business

[Net sales of ¥52.3 billion (down 3% year on year), operating income of ¥7.2 billion (up 13% year on year)]

- Semiconductor wafer-related containers of Shin-Etsu Polymer Co., Ltd. were affected by slowdowns in investments in the semiconductor-related markets.

[Supplementary explanation on the operating results and forecasts]

- Capital investments for the first half of the year amounted to ¥116.9 billion (up ¥19.2 billion year on year). They included ¥38.6 billion (up ¥9.6 billion year on year) invested in the PVC/Chlor-Alkali segment primarily for the expansion of the PVC facility at Shintech and ¥20.1 billion (up ¥8.1 billion year on year) in the Electronics & Functional Materials segment. Depreciation and amortization totaled ¥65.3 billion (up ¥3.5 billion year on year) with increases in the PVC/Chlor-Alkali and Silicones segments.
- Capital investments for the fiscal year ending March 31, 2020 are projected to be ¥270.0 billion, lower than the initial forecast. Depreciation and amortization are expected to be ¥140.0 billion, lower than the forecast announced at the closing of the first quarter, due to a decline in investments and a push back in the timing of operation.
- Average foreign exchange rates: The average rate for the January–June period for the financial closing of overseas subsidiaries was US\$1 = ¥110.1 (depreciation of the yen from the year before) and the average for the April–September period for the financial closing of domestic companies was ¥108.6 (appreciation of the yen from the year before).
- Assumed foreign exchange rates in operating forecasts for the year ending March 31, 2020 are: US\$1 = ¥108, €1 = ¥122 from October onward.
- Foreign exchange sensitivity of ordinary income: US\$ is ¥2.7 billion (¥1.7 billion in exports and imports of domestic companies; ¥1.0 billion in conversion by overseas subsidiaries), € is ¥0.3 billion.

[Q&A Session]

<PVC/Chlor-Alkali>

Q Please describe the market environment of PVC?

A	<ul style="list-style-type: none"> • In North America, price increases were proposed in October, but were not accepted. Looking back at the year thus far, price movements have been limited, and the market demand is stable. We do not have a pessimistic view for the coming year. • Overseas, the range of price movements is becoming smaller than in the past. The trends from 2017 show a range of about US\$100 between the high and the low. In that sense, we feel that the prices are relatively stable. We believe that fluctuation of the market price does not happen automatically (not natural market forces). Market prices on the market fall because someone lowers them. We see that the prices have currently hit the bottom and there is no tone in the market to push prices lower.
Q	What was the status of Shintech in the July–September quarter?
A	Looking at Shintech’s performance in the July–September quarter, profits slightly declined from the April–June quarter (mainly due to higher prices of ethylene). Profits are lower than the third quarter (July–September period) of last year when performance was strong.
Q	When will Shintech’s ethylene plant start operation?
A	Last month, we injected ethane for the launch, but were faced with a problem. We are currently making earnest efforts to make adjustments with the aim of starting operation in December.
Q	What is the outlook for the caustic soda market?
A	Caustic soda prices have hit the bottom and have begun to bounce back. The Company will support this trend.
Q	How do you view the differences in caustic soda prices between Japan and other parts of Asia?
A	It is a fact that there are price differences. The Japanese market has not necessarily interlocked with the international market even up till now (there were also times when prices were considerably lower in Japan than overseas). That said, since our customers are also paying attention to overseas market conditions, some adjustments might be made going forward. However, we do not expect major price changes.

<Silicones>

Q	What was the reason for a lower profit on higher revenues and what is the outlook for the third quarter onward?
---	---

A	<ul style="list-style-type: none"> • Although sales increased due to a higher sales volume, income was affected by the decline in market prices for general-purpose products. We view that the market prices for general-purpose products have hit the bottom. • From the third quarter onward, we will increase the proportion of functional products while maintaining the sales volume. Inquiries for our functional products continue to be favorable and we will take steps to sell our products more widely and in greater number.
Q	Why is the Company able to maintain sales and income at high levels compared with competitors?
A	<ul style="list-style-type: none"> • We think it is due to the difference in product composition.

<Semiconductor Silicon>

Q	What is the status of the wafer market?
A	<ul style="list-style-type: none"> • In the July–September quarter, the number of shipments in the global wafer market declined slightly from the April–June quarter and was down by about 10% on a year-on-year basis. By diameter size, shipments declined in the order of 150 mm or smaller, 200 mm and 300 mm. • Looking at the trends of wafers for devices, in the July–September quarter, the number of shipments of epitaxial wafer (use for logic, microcomputers, etc.) marked a record high. Demand is increasing primarily for leading-edge logic applications, and we have positive expectations for the coming year. Meanwhile, the number of shipments of memory devices has been bouncing back from around March of this year. DRAM marked a record high in terms of quantity while NAND has been recovering recently, and we look forward to the coming year and beyond. • Wafer inventories differ significantly depending on the type, diameter size, and customer. The smaller the diameter, the more normal the level of customer’s inventory, and an increasing number of customers are indicating that their inventory size has been restored to an ordinary level for the most part. Future market trends will depend on the progress of growth in demand for devices and the consumption of wafer inventories. There are some customers that are beginning to revise (increase) their inventory levels, and we feel the need to pay attention to the change in the inventory holding policy. • As for demand going forward, frankly speaking, it is difficult to make a projection due mainly to signs of a slowdown in the global market and the continuing trade conflicts.

	On the other hand, we are also beginning to see positive signs for a bright future, such as the recovery of demand for data center products, the launch of 5G-related movements, the growing car electronization trend, and the expansion of IoT-related products.
Q	Please elaborate on the operating results of the July–September quarter?
A	<ul style="list-style-type: none"> • The factors that caused the decline in income in the July–September quarter compared with the level of April–June quarter include a decrease in sales volume, foreign exchange impact, an increase in depreciation and repair expenses. Another factor was the change in the product mix of wafers of 200 mm or smaller.
Q	What is the price trend and the status of long-term agreements (LTA)?
A	<ul style="list-style-type: none"> • Prices agreed in LTA are followed by the customer. We ask for adherence to LTA on prices. In our case, since the LTA ratio is high for 300 mm wafers, we are not greatly impacted by fluctuations in spot prices. We also do not lower the prices to increase shipment volume on the spot market.
Q	What is the approach to capital investments?
A	<ul style="list-style-type: none"> • The Company’s policy on capital investments is to make investments based on the LTA with each customer in order to carry out shipments to the customer.

<Electronics & Functional Materials>

Q	What is the status of photoresists and photomask blanks?
A	<ul style="list-style-type: none"> • Leading-edge products for both photoresists and photomask blanks are favorable. • While adjustments were made in part for photomask blanks, we were able to cover with other products. • In the field of EUV photoresists, we were able to properly respond to the Japan–Korea trade issue and increase shipments. • A certain level of advance demand from customers was seen in conjunction with the Japan–Korea trade issue, but there was no major impact and the situation has now calmed down.

<Company-wide>

Q	What is the reason for lowering your forecast for capital investments?
A	<ul style="list-style-type: none"> • The change was mainly related to the Silicones Business and the Semiconductor Silicon Business. In Silicones, there have been some delays in construction. In Semiconductor Silicon, we are not forcing the completion of construction and some tasks have been

	transferred to the next fiscal year.
Q	What is the reason for lowering your forecast for depreciation and amortization?
A	<ul style="list-style-type: none"> • The forecast was lowered due to a decrease in investments and the timing of operation. In Semiconductor Silicon, although some of the facilities were acquired, we are delaying the start of operation in part. Another factor is Shintech's ethylene plant where the start of operation has been postponed from the initial schedule.
Q	What is the breakdown of construction in progress?
A	<ul style="list-style-type: none"> • Construction in progress includes approximately ¥200.0 billion in the PVC/Chlor-Alkali Business, roughly ¥30.0 billion in the Semiconductor Silicon Business, and approximately ¥30.0 billion in the Electronics and Functional Materials Business. Of the remaining roughly ¥50.0 billion, silicones account for the major portion.