

## Shin-Etsu Chemical Co., Ltd.

### Summary of Telephone Conference on Financial Results for the Third Quarter Ended December 31, 2019

<b>Date</b>	January 28, 2020 16:00–17:00
<b>Venue</b>	Shin-Etsu Chemical Co., Ltd.
<b>Attendees from the Company</b>	<ul style="list-style-type: none"><li>• Yasuhiko Saitoh, Representative Director – President</li><li>• Masahiko Todoroki, Senior Managing Director, In charge of Semiconductor Silicon Business</li><li>• Toshiyuki Kasahara, Director, General Manager of Finance &amp; Accounting Department</li><li>• Yukihiro Adachi, General Manager of Public Relations Department</li></ul>
<b>Reference material</b>	<p><a href="#">Consolidated Financial Results for the First Three Quarters Ended December 31, 2019</a></p> <p>*Conventionally, Financial Data and Financial Summary had been prepared, but they have been integrated into Financial Data.</p>

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

#### [Summary of financial results (President Yasuhiko Saitoh)]

- In the third quarter (**first nine months**) ended December 31, 2019, the Company posted consolidated net sales of ¥1,174.0 billion (down 2.7% year on year), operating income of ¥318.7 billion (down 1.8% year on year), ordinary income of ¥330.2 billion (almost flat year on year), and net income attributable to owners of parent of ¥246.8 billion (up 1.9% year on year).
- In the third quarter alone (**Oct-Dec period**), the Company posted consolidated net sales of ¥387.4 billion (down 6.7% year on year), operating income of ¥108.2 billion (down 6.2% year on year), ordinary income of ¥112.0 billion which was flat year on year, and net income attributable to owners of parent of ¥81.8 billion (down 1.8% year on year). The year-on-year difference (for the Oct-Dec 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 wafers of 200 mm or smaller in the Semiconductor Silicon segment.
- ROIC (annualized) came to 20.4% and maintained the 20% level. ROE (annualized) was 13.1% and maintained the 13% level.
- 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 nine months against (income) forecasts was 79%. The Company will strive to achieve the forecasts by implementing planned activities.

(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 ¥372.8 billion (down 7% year on year), operating income of ¥77.2 billion (down 15% year on year)]

- Shipments were steady in all three regions — the U.S., Europe, and Japan — although both PVC and caustic soda were affected by market conditions.

### ➤ Silicones Business

[Net sales of ¥172.1 billion (down 1% year on year), operating income of ¥47.0 billion (up 3% year on year)]

- We strove to expand sales primarily of functional products although general-purpose products were affected by the price decline.

### ➤ Specialty Chemicals Business

[Net sales of ¥87.4 billion (down 5% year on year), operating income of ¥21.3 billion (up 2% year on year)]

- Sales of cellulose derivatives for pharmaceutical-use products remained stable although those for construction materials were weak in some regions.
- Shipments of synthetic pheromone products were firm.

### ➤ Semiconductor Silicon Business

[Net sales of ¥295.8 billion (up 4% year on year), operating income of ¥112.1 billion (up 8% year on year)]

- Amid adjustments being made in the semiconductor device market, we strove to maintain price and shipment levels.

### ➤ Electronics & Functional Materials Business

[Net sales of ¥167.9 billion (down 3% year on year), operating income of ¥51.4 billion (down 2% year on year)]

- In the field of rare earth magnets, shipments mainly for environmentally-friendly automotive applications remained strong although those for industrial equipment were impacted by a slowdown in demand.
- In the photoresist field, ArF photoresists and EUV photoresists were generally favorable.

- Photomask blanks saw increased sales primarily of leading-edge products and performed steadily.
- The optical fiber preform business was impacted by worsening market conditions and faced tough circumstances.

➤ Processing, Trading & Specialized Services Business

[Net sales of ¥77.8 billion (down 6% year on year), operating income of ¥11.0 billion (up 5% 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 for the year ending March 31, 2020]

- Capital investments for the first nine months of the year amounted to ¥179.1 billion (up ¥15.3 billion year on year). They included ¥60.2 billion (up ¥10.4 billion year on year) invested in the PVC/Chlor-Alkali segment primarily for the expansion of the PVC facility at Shintech and ¥32.8 billion (up ¥6.5 billion year on year) in the Electronics & Functional Materials segment. Depreciation and amortization totaled ¥97.0 billion (down ¥0.2 billion year on year) with increases in the PVC/Chlor-Alkali and Silicones segments while a decrease was posted in the Semiconductor Silicon segment.
- Capital investments and depreciation and amortization for the fiscal year ending March 31, 2020 are projected to be ¥270.0 billion and ¥140.0 billion (no change after the adjustments made in October, respectively).
- Average foreign exchange rates: The average rate for the January–September period for the financial closing of overseas subsidiaries was US\$1 = ¥109.2 (appreciation of the yen from the year before) and the average for the April–December period for the financial closing of domestic companies was ¥108.7 (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 January onward.
- Foreign exchange sensitivity of ordinary income: US\$ is 2.7 billion (¥1.8 billion in exports and imports of domestic companies; ¥0.9 billion in conversion by overseas subsidiaries), € is 0.3 billion.

## [Q&A Session]

<PVC/Chlor-Alkali>

Q	Please describe the current market conditions for PVC and caustic soda.
A	<p>&lt;PVC&gt;</p> <p>The PVC market is turning upward not only in the U.S. but also on a global basis. In North America, a 3-cent price increase was accepted already in January. Efforts are also being made to achieve a 3-cent price increase in February. Serious efforts are also made toward price increases for exports from the U.S., and prices are actually moving upward.</p> <p>&lt;Caustic Soda&gt;</p> <p>Caustic soda prices are not bouncing back smoothly after having hit the bottom, and we are taking steps in an effort to make prices rebound.</p>
Q	What was the status of Shintech in the Oct-Dec quarter?
A	<ul style="list-style-type: none"><li>• Demand for PVC in the Oct-Dec quarter in the U.S. was not necessarily bad on the whole. Although demand tends to be normally weak in the winter season, looking at the results for December, demand showed levels of the September and October months, a period of high demand. This reflects the fact that demand in the U.S. has recovered and is getting stronger. Supported by this trend, among other factors, the price increase in January was possible. In other words, although the market price was bearish in the Oct-Dec quarter, there was no need to lower the prices at all. While Shintech conducts sales activities based on the saying, "Listen to the market," prices declined in the Oct-Dec quarter due to the impact of individuals who either ignore the market or are not sensitive to the market.</li><li>• Preventive maintenance was conducted at the Louisiana Plant in the Oct-Dec quarter, and therefore profit declined compared with the level in the Jul-Sep quarter. Profit was also down on a year-on-year basis due to the lower prices (as mentioned above).</li><li>• We are making efforts to achieve price adjustments in the new fiscal year.</li></ul>
Q	Please describe the status of Shintech's ethylene plant operation.
A	<p>Although we stated in the previous telephone conference that we would aim to start operation by the end of last year, we unfortunately did not manage to do so. We are actually on the verge of starting operation and expect to begin cracking in the first week of February.</p>

## <Silicones>

Q	What is the reason for higher profit on lower revenues compared with the previous quarter?
A	The main factor is the change in product composition as a result of expanding sales of functional products.
Q	What is the status by type of application?
A	In the personal care field, sales are also increasing also in emerging countries as well as in advanced countries. In the automotive industry, silicones are actively applied to environmentally-friendly automobiles. We plan on further expanding our product lines and further increasing sales.

## <Semiconductor Silicon>

Q	Please describe the market status in the Oct-Dec quarter and your outlook for the Jan-Mar quarter.
A	<ul style="list-style-type: none"><li>• Market conditions in the Oct-Dec quarter were such that negative growth was seen in all diameter sizes compared with the results in the Jul-Sep quarter. Negative growth has been continuing quarter on quarter since the Oct-Dec quarter in 2018 up to the Oct-Dec quarter in 2019.</li><li>• Looking ahead to the Jan-Mar quarter in 2020, trends are changing a little for each diameter size. While we expect that 300 mm wafers for memory will continue to be weak, EPW for logic has been recovering since the latter half of the previous year. Supported by EPW, the market of 300 mm wafers is unlikely to slump significantly compared with the Oct-Dec quarter. As for 200 mm wafers, we expect that performance will be somewhat weak in the Jan-Mar quarter due to the stagnant inventory status of device manufacturers as well as the start of the low-demand season. Wafers of 150 mm or smaller diameter are expected to show a slight decline in the Jan-Mar quarter from the Oct-Dec quarter.</li></ul>
Q	What were the factors underlying the growth in profit from the Jul-Sept quarter to the Oct-Dec quarter?
A	<ul style="list-style-type: none"><li>• Factors for profit growth include: (1) higher sales volume due partly to the difference in the accounting period of overseas subsidiaries, (2) lower depreciation expenses, and (3) a slight weakening of the yen.</li></ul>

Q	What is the status of long-term agreements, prices and inventory level?
A	<ul style="list-style-type: none"> <li>• There is no change in long-term agreement prices for 300 mm wafers. We do not expect to make price adjustments for concluded agreements in the coming year onward.</li> <li>• As for wafers of 200 mm, 150 mm or smaller, there are moves in the market among some silicon wafer manufacturers to lower the price to secure volume. However, we have not lowered our prices.</li> <li>• Looking at the inventory level of 300 mm wafers, performance is extremely active among items for leading-edge logic applications of 10 nm or smaller and we believe that customers' inventory level of wafers is not very high. Meanwhile, the status of memory differs from one manufacturer to another. However, shipments of devices have been on the rise in terms of volume since early spring of last year. DRAM and NAND are both demonstrating growth also on a bit basis, and we anticipate seeing an earlier-than-expected recovery.</li> <li>• The ratio of long-term agreements in 2020 is constant at approximately 90%. At this time, the ratio of long-term agreements in 2021 is more than 70%.</li> </ul>
Q	What about capacity expansion?
A	<ul style="list-style-type: none"> <li>• We continue to invest in higher quality wafers. Demand for cutting-edge EPW will rise in this Jan-Mar quarter, but we are not in the phase of capacity expansion.</li> <li>• The Company has a little leeway for brownfield. Since demand for 2019 and 2020 will be slightly lower than projected, we do not expect to see drastic investment in the greenfield right away in terms of the overall industry.</li> </ul>

### <Electronics & Functional Materials>

Q	What were the developments in the Oct-Dec quarter in the Electronics & Functional Materials segment?
A	<ul style="list-style-type: none"> <li>• Photoresists, photomask blanks and rare earth magnets showed growth year on year. Optical fiber preforms posted lower profits.</li> <li>• Photoresists showed steady growth in leading-edge products primarily for EUV. Although volume was front-loaded due to the impact of the Japan–Korea issue in the Jul-Sep quarter in 2019, there was no impact in subsequent months.</li> <li>• In the area of rare earth magnets, growth was seen in automotive applications, but there was no recovery in FA.</li> </ul>

Q	What are your views on the major products in the Electronics & Functional Materials segment in the Jan-Mar quarter?
A	<ul style="list-style-type: none"> <li>• There is no change to our initial projections for photoresists and photomask blanks.</li> <li>• As for rare earth magnets, we are also beginning to see a weakening trend in the area of environmentally-friendly automobiles where we have been demonstrating growth. We will make efforts to increase our share and get through the Jan-Mar quarter.</li> <li>• With regard to preforms, we are making serious efforts to get through the Jan-Mar quarter.</li> <li>• This segment also includes synthetic quartz and pellicles. We will work on achieving further growth in synthetic quartz for large substrates and others.</li> </ul>

<Company-wide>

Q	What is the balance of construction in progress?
A	<ul style="list-style-type: none"> <li>• It is more than ¥200.0 billion in the PVC/Chlor-Alkali segment and roughly ¥30.0 billion in Silicones, Semiconductor Silicon, and Electronics &amp; Functional Materials segments, respectively. The remainder goes to the Specialty Chemicals segment.</li> <li>• The total balance increased by more than ¥20.0 billion from the Jul-Sep quarter to the Oct-Dec quarter and this was mostly attributable to the PVC/Chlor-Alkali segment.</li> </ul>
Q	What is your overall forecast for the company in the Jan-Mar quarter?
A	We are working to achieve the forecast announced during the remaining two months of this fiscal year.
Q	What is your forecast for depreciation and amortization in the Jan-Mar quarter?
A	<ul style="list-style-type: none"> <li>• Our full-year forecast is ¥140.0 billion and we are expecting the number to be between ¥2.0 billion to ¥3.0 billion lower.</li> <li>• Compared with the previous quarter, we are expecting increases in depreciation and amortization mainly in the areas of Silicones, Semiconductor Silicon, and Electronics &amp; Functional Materials. One underlying factor is the start of operation among the investment projects we have been pursuing. There will be no increase in the PVC/Chlor-Alkali segment because operation of the ethylene plant has not begun.</li> </ul>
Q	When do you expect new products (quartz cloth and GaN) to start contributing to earnings?
A	We have great anticipation for these products and will focus on them. While it is difficult to quantify the magnitude of contribution at this time, we are making efforts so that they will contribute to our earnings in the next fiscal year.

Q	What is the impact of the novel coronavirus?
A	It is not clear what impact can be expected. There will likely be movements in our products used for medical gloves and IV tubes. We are also keeping a close watch on what impact the temporary slowdown of the Chinese economy will have.