

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the Fiscal Year Ended March 31, 2020

Date	April 28, 2020 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	<p>Consolidated Financial Results for the Fiscal Year Ended March 31, 2020</p> <p>*The Financial Data and Financial Summary were conventionally 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 fiscal year ended March 31, 2020, the Company posted consolidated net sales of ¥1,543.5 billion (down 3% year on year), operating income of ¥406.0 billion (up 1% year on year), ordinary income of ¥418.2 billion (up 1% year on year), and net income attributable to owners of parent of ¥314.0 billion (up 2% year on year).
- In the fourth quarter alone (January–March quarter), the Company posted consolidated net sales of ¥369.5 billion (down 5% year on year), operating income of ¥87.3 billion (up 11% year on year), ordinary income of ¥88.0 billion (up 2% year on year), and net income attributable to owners of parent of ¥67.1 billion (almost flat year on year).
Profits declined in the PVC/Chlor-Alkali segment mainly due to falling product prices. The Silicones segment saw higher profits thanks to an increase in sales volume and a higher ratio of functional products despite a decline in prices of general-purpose products. The main factor for higher profits in the Semiconductor Silicon segment was a change in product mix. Profits rose in the Electronics & Functional Materials segment mainly due to volume-based effects.
- Net income per share was ¥755.
- ROIC came to 19.4% and ROE was 12.3%, both maintaining high levels.
- The Company will pay an annual dividend of ¥220 per share, up ¥20 per share from the previous fiscal year.

[Outlook for the future]

- The world economy is right in the midst of the Covid-19 crisis. It is unpredictable at this

moment when and how the Covid-19 crisis will end and how badly the global economy will be damaged.

- We will do our best to minimize the impact of the pandemic by focusing on maintaining the health and safety of our employees, continuing production and securing sales, and fulfilling business requirements, including protecting our receivables.
- By taking advantage of the strength of our balance sheet, we will carry out investment projects as planned. We will implement timely and appropriate investments to prepare for the post-pandemic status.
- The Company has yet to release its consolidated operating forecasts. We will promptly disclose them as soon as we can.
- If we were to express our gut feeling as of the current April–June quarter, we would say “it is raining hard” in the PVC business while “it is cloudy” in the field of caustic soda in the PVC/Chlor-Alkali Business segment.

The Silicones and the Specialty Chemicals segments are seeing "cloudy" weather.

In the Semiconductor Silicon and Electronics & Functional Materials segments, "it is raining in certain areas but generally sunny in other areas."

- While adhering closely to customers and markets and reacting agilely to changes, we will steer our businesses by properly identifying any overreactions and overcorrections that might occur in the market.

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

➤ PVC/Chlor-Alkali Business

[Net sales of ¥484.3 billion (down 8% year on year), operating income of ¥92.1 billion (down 14% year on year)]

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

➤ Silicones Business

[Net sales of ¥226.8 billion (down 3% year on year), operating income of ¥61.4 billion (up 5% year on year)]

- Sales primarily of functional products further expanded, although general-purpose products were affected by a fall in prices.

➤ Specialty Chemicals Business

[Net sales of ¥114.7 billion (down 5% year on year), operating income of ¥27.7 billion (up 4% year on year)]

- Sales of cellulose derivatives for pharmaceutical-use products remained firm, although those

for construction materials were weak.

- Shipments of synthetic pheromone products were firm.
- POVAL was affected by market conditions.

➤ Semiconductor Silicon Business

[Net sales of ¥387.6 billion (up 2% year on year), operating income of ¥143.2 billion (up 9% year on year)]

- While adjustments continued to be made in the semiconductor device market, efforts were made to maintain price and shipment levels.

➤ Electronics & Functional Materials Business

[Net sales of ¥225.1 billion (down slightly year on year), operating income of ¥68.5 billion (up 2% year on year)]

- In the field of rare earth magnets, the sales level mainly for environmentally-friendly automobile applications was maintained, although the performance of industrial equipment applications was weak.
- Photoresists were generally favorable mainly in ArF and EUV resists, and photomask blanks also continued to be stable.
- Optical fiber preforms faced difficult conditions due to the adverse market conditions, but photomask substrates for large panels performed favorably.

➤ Processing, Trading & Specialized Services Business

[Net sales of ¥104.7 billion (down 4% year on year), operating income of ¥14.8 billion (up 12% 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 of the financial results]

- Capital investments for the fiscal year ended March 31, 2020 were ¥265.0 billion (up ¥24.4 billion year on year). They included ¥102.0 billion (up ¥25.6 billion year on year) in the PVC/Chlor-Alkali segment primarily for the expansion of PVC at Shintech, ¥35.5 billion (up ¥7.3 billion year on year) in the Silicones segment, ¥58.9 billion (down ¥10.4 billion year on year) in the Semiconductor Silicon segment, and ¥46.2 billion (up ¥6.1 billion year on year) in the Electronics & Functional Materials segment. Depreciation and amortization totaled ¥131.1 billion (down ¥6.4 billion year on year) with increases in the PVC/Chlor-Alkali, Silicones and Specialty Chemicals segments while a decrease was posted in the Semiconductor Silicon segment.
- Capital investments for the current fiscal year ending March 31, 2021 (annual) are projected to

be ¥240.0 billion (overseas investments are converted at the rates of: US\$1 = ¥108 and €1 = ¥120).

- Average foreign exchange rates: The average rate for the January–December period for the financial closing of overseas subsidiaries was US\$1 = ¥109.05 (appreciation of the yen from the year before) and the average for the April–March period for the financial closing of domestic companies was ¥108.74 (appreciation of the yen from the year before).
- Foreign exchange sensitivity of ordinary income: US\$ is ¥2.6 billion (¥1.7 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 status of Shintech in the January–March quarter and the April–June quarter?
A	<p><Status in the 1Q (January–March quarter) of the new fiscal year></p> <ul style="list-style-type: none"> • North American sales picked up from January to March, and Shintech saw record-high domestic sales in March. Given the favorable supply and demand situation in the domestic market, the price (in January and February) was raised by 5¢/lb and pricing for exports was also raised. However, production and sales volumes decreased due to a defect in Shintech’s monomer facility and its repair work. • Compared with the January–March quarter of last year, the decline in caustic soda prices led to lower profits. <p><Status since April></p> <ul style="list-style-type: none"> • In late March, sales in North America were expected to grow even further in April, and combined with orders from customers and prospects, sales were extremely strong. However, with the enforcement of lockdown measures, the market situation changed significantly. As a result, the domestic price in April dropped by about 5¢/lb, which offset the increase in the first three months. In the United States, the situation differs from state to state, with adjustments made in April by some but not others and a recovery expected in May in some but not all, and the status is not clear. • As for exports, the volume of shipments was not so large since periodic preventive maintenance was performed at the Texas Plant. Although prices were high in April, the situation changed dramatically in May. However, as the Company conducts sales activities proactively, a certain level of sales can be expected in May. • As for caustic soda, the supply-demand balance is becoming somewhat tight due to

	adjustments in the production of PVC. We are taking steps with a view to having this area support our earnings.
Q	What is your outlook on the demand for PVC?
A	<ul style="list-style-type: none"> • In North America, the lockdown is beginning to be lifted and the government is extending considerable support, so we expect demand will gradually recover and customers share a similar view. • As far as India is concerned, it is one of the biggest importers of PVC, and we are seeing an impact from the lockdown implemented. India's economy itself seems to be damaged, so we need to monitor if the level of imports will recover and how it will recover when the lockdown is lifted. It is most important that the lockdown is lifted, and depending on the economic conditions thereafter, we believe that the demand for PVC will also become active.
Q	What is the impact of falling crude oil prices?
A	<p>At a glance, the competitiveness of Asian naphtha-derived ethylene seems more competitive as the price of crude oil has fallen to the current level, but we don't think naphtha will fall any further (this includes wishful thinking). Ethylene derived from naphtha also depends on the value of co-products, so we don't think the price can be determined simply.</p> <p>One factor supporting ethane crackers in North America is the difference between naphtha-derived ethylene and ethane-derived ethylene. The drop in crude oil prices has narrowed the difference for the time being. We hope oil prices will return to their normal levels from where they are today.</p>
Q	Please describe the price trends and procurement of ethane and ethylene.
A	<p>As the production of crude oil in the United States continues to decline, the amount of ethane that is produced in conjunction with shale oil will also decrease. At present, there is no problem in procuring ethane to operate the Company's ethylene plant. However, we need to keep in mind that ethane prices are going up. Some people say that there is still room for a downward movement in PVC prices because of the low spot price of ethylene, but that is not the case. The price of ethane will go up, and the spot trading portion of ethylene is not large, so it is short-sighted to discuss the spread of PVC based on the spot price of ethylene. In any case, we expect that as the Covid-19 crisis ends and the economy recovers, the crude oil prices will eventually recover.</p>
Q	Please describe the status of Shintech's ethylene plant operation.
A	It is operating smoothly.

Q	What are the plans for the second phase of the expansion of PVC?
A	We have a timeframe in consideration up through the third phase of the expansion of PVC and have already obtained construction permits. The construction for the first phase is in progress now, and the rest will follow after it is completed. However, since construction will take some time, we are in the planning process for subsequent phases.

<Silicones>

Q	How were the shipments in the January–March quarter?
A	<ul style="list-style-type: none"> • Although prices of general-purpose products declined, we managed to increase sales of functional products. • Production volume decreased due to the preventive maintenance in Thailand in the January–March quarter.

<Semiconductor Silicon>

Q	Please describe the market status in the fourth quarter (January–March quarter) and your outlook for the first quarter (April–June quarter) of the new fiscal year.
A	<ul style="list-style-type: none"> • Market conditions in the industry in the fourth quarter (January–March quarter) showed a slight increase overall compared with the third quarter (October–December quarter), but a slight decrease compared with the same period of the previous year. The negative trend that began in the October–December quarter of 2018 came to a halt. • Demand surged particularly from March, and we view that was partly due to the inventory buildup in the supply chain caused by the Covid-19 problem. • As for the outlook for the first quarter (April–June quarter) of the new fiscal year, we expect that demand for all diameter sizes will remain strong. <p><Status by diameter size></p> <p>[300 mm]</p> <p>Memory manufacturers adjusted their inventories last year and were on a recovery trend, but due to the Covid-19 problem, some have started to build up inventories. We expect the current strength to continue in the April–June quarter. As for EPW for logic applications, demand for leading-edge devices has been on the rise since the beginning of autumn of last year. Demand for these applications is now further increasing, with new demand peaks seen in February and March. We expect strong demand to also continue in the April–June quarter.</p> <p>[200 mm]</p> <p>As the stock was becoming a little heavy, adjustments were made from January to February,</p>

	<p>but the demand increased rapidly from March due to the Covid-19 problem, and we expect this situation to also continue in the April–June quarter in a similar way as the situation for 300-mm products. However, we view that an adjustment phase will take place at some point.</p> <p>[150 mm or smaller]</p> <p>Adjustments from last year have been completed, and demand is rapidly increasing as seen in other diameter types.</p> <ul style="list-style-type: none"> • As for the trend after July, it is difficult to predict at this point.
Q	What are the factors behind the profit decline from the third to the fourth quarter?
A	One factor is the change in product composition. Other factors include a decrease in volume following a flexible shipping approach taken and the impact of repairs and inventory disposal.
Q	How about your outlook on capital investments and depreciation and amortization for the new fiscal year?
A	<ul style="list-style-type: none"> • We expect capital investments in the fiscal year ending March 2021 to be slightly lower than in the fiscal year ended March 2020. In the medium to long term, we expect demand to grow and thus we will continue to invest in preparation for that. However, we are not considering further investment in brownfield this fiscal year except for some special products. • The level of depreciation and amortization, which is subject to market trends, is currently on a downward trend in the fiscal year ending March 2021 compared with the trend in the year before. • Either way, it will largely depend on the market situation after July.

<Electronics & Functional Materials>

Q	Please describe the products for which you said it was “raining in certain areas.”
A	<ul style="list-style-type: none"> • Optical fiber preforms have been in recession since before the Covid-19 problem, and they continue to be weak. As China resumes economic activities and reinforces its economy, we anticipate investments to be made in telecommunications networks, but for now, it continues to rain. • Due to the impact of the Covid-19 pandemic, plant operations have been suspended in some areas, such as Malaysia. But please don't worry, the reduction in plant capacity in Asia is limited and has not had a notable impact.

Q	How about EUV photoresists?
A	We are working hard to fully meet the needs of our customers, who are actively operating at the forefront of this field in expanding their businesses.
Q	What is your outlook for each of the products?
A	<ul style="list-style-type: none"> • Photoresists and photomask blanks are similar to semiconductor silicon in that while some customers are working to maintain safety stock, others are actually pursuing production and shipment. • The same applies to magnets for HDDs. • Automotive magnets are supported by a variety of products, such as those for environmentally friendly vehicles, and the total volume of automobile production does not equally reflect the sales of magnets. However, we are seeing an impact of the shrinking automotive market. • Magnets for FA applications are on a recovery trend, and we are looking forward to improved circumstances.
Q	What is the status of photomask blanks for EUV?
A	Photomask blanks for EUV are still under development, and we are working to deliver them to our customers as soon as possible.

<Company-wide>

Q	What is the reason for higher inventories?
A	<ul style="list-style-type: none"> • As of the end of March 2020, inventories had increased by more than ¥35 billion from the end of the previous fiscal year, which included an increase in finished goods of approximately ¥15 billion and an increase in raw materials of more than ¥20 billion. • Inventories of finished goods are increasing little by little in each business division and the increase is nothing that stands out.
Q	What is your M&A strategy?
A	<ul style="list-style-type: none"> • While we at the Company have been exploring the possibility of M&A, we have yet to come across anything that meets our standards. • We will continue to thoroughly operate our existing businesses, and if we come across an opportunity that might contribute to our growth in the course of our activities, we will make a move.

Q	What is your approach toward cost reduction?
A	Regardless of the level of profit recognized, we have always worked to build a lean corporate structure through cost reduction and the improvement of productivity. We will continue to monitor the costs of each business even more closely than before in an effort to reduce costs.
Q	What is the breakdown of construction in progress?
A	<ul style="list-style-type: none"> • It consists of approximately ¥260 billion in the PVC/Chlor-Alkali segment, over ¥40 billion in Semiconductor Silicon, mid ¥30 billion range in the Electronics & Functional Materials segment, and nearly ¥30 billion in Silicones.