

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Quarter Ended June 30, 2020

Date	July 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 First Quarter Ended June 30, 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 first quarter ended June 30, 2020, the Company posted the following results: Consolidated net sales of ¥359.3 billion (down 7% year on year, down 3% quarter on quarter), operating income of ¥90.9 billion (down 15% year on year, up 4% quarter on quarter), ordinary income of ¥95.2 billion (down 13% year on year, up 8% quarter on quarter), and net income attributable to owners of parent of ¥69.3 billion (down 18% year on year, up 3% quarter on quarter).
- Looking at the year-on-year change, 70% of the decline in income from a year earlier was in the PVC/Chlor-Alkali Business and Silicones Business segments, mainly due to the softening of market conditions. The Company posted a higher profit from the level of the previous quarter despite the economic downturn that began in April. In this April–June quarter under review, each of our business segments agilely resolved and overcame a variety of challenges and problems faced, and delivered results.

[Outlook for the future]

- The economy has indeed been showing signs of recovery since last month, with the lifting of the so-called lockdowns of cities and the resumption of economic activities.

However, needless to mention the example of the status in the U.S., there are no signs of an end to the COVID-19 situation and the impact of the pandemic is not foreseeable at this time. In fact, the vast majority of our customers indicate that they cannot make a full-year projection.

- Under these circumstances, the Company released its operating forecasts for the first six months of the fiscal year.

The forecasts for the second quarter alone (three-month period of July to September) are: consolidated net sales of ¥345.7 billion (down 4% quarter on quarter), operating income of ¥91.1 billion (same as the previous quarter), ordinary income of ¥96.8 billion (up 2% quarter on quarter), net income attributable to owners of parent of ¥69.7 billion (up 1% quarter on quarter).

- The Company forecasts an interim dividend of ¥110 per share.
- The Company will release its full-year forecast as soon as it can.
- We will take the current situation as a new normal and also look at it as an opportunity to improve earnings. We will maintain the health and safety of our employees, and continue to strive to secure sales and retain high operating rates in order to improve our performance.

[Latest status by segment]

- In the PVC/Chlor-Alkali Business segment, the July price of PVC was raised in North America and other major markets. The price increase for August in the export market has already been approved. We plan on pursuing tertiary price increases also in North America. We have sold out the production for August.
- In the Silicones Business segment, by taking advantage of the variety of silicone products handled, the Company is working to make up for sales in the field and region where demand has fallen. We will agilely adjust the contents of ongoing investments to capture demand.
- In the Specialty Chemicals Business segment, we will focus on cellulose considering that demand for pharmaceuticals is clearly growing amid the pandemic.
- In the Semiconductor Silicon Business segment, we will concentrate on two types: 300 mm products and cutting-edge products.
- In the Electronics and Functional Materials Business segment, although we had a bitter experience with magnets in the first quarter (April–June period), we will continue to operate at full capacity with no suspension in operations. In the lithography-related field, we will be sure to focus on cutting-edge items.

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

➤ PVC/Chlor-Alkali Business

[Net sales of ¥110.2 billion (down 10% year on year), operating income of ¥19.0 billion (down 25% year on year)]

- Both PVC and caustic soda continued high levels of shipments in the U.S., but were affected by market conditions.
- Europe was affected by market conditions despite efforts to maintain sales volumes.
- Shipment volume in Japan decreased due to periodic maintenance in addition to market conditions.

➤ Silicones Business

[Net sales of ¥51.2 billion (down 9% year on year), operating income of ¥10.5 billion (down 34% year on year)]

- Business was affected by a price decline of general-purpose products and a slowdown in demand for automotive and cosmetics applications.

➤ Specialty Chemicals Business

[Net sales of ¥27.4 billion (down 5% year on year), operating income of ¥5.0 billion (down 33% year on year)]

- Cellulose continued to hold steady in pharmaceutical and coating products, but its application in construction materials was sluggish.
- Shipments of pheromones and POVAL were weak.

➤ Semiconductor Silicon Business

[Net sales of ¥94.9 billion (down 4% year on year), operating income of ¥38.5 billion (down 2% year on year)]

- We endeavored to maintain the levels of sales prices and shipments although the semiconductor device market remained in an adjustment phase.

➤ Electronics & Functional Materials Business

[Net sales of ¥52.5 billion (down 4% year on year), operating income of ¥14.9 billion (down 10% year on year)]

- Operations of plants for rare earth magnets overseas were temporarily affected by lockdown measures caused by COVID-19, but plants are now operating at full capacity.
- Photoresists were generally favorable mainly in ArF and EUV photoresists.

- Photomask blanks also performed steadily thanks to the growth in cutting-edge products.
- Optical fiber preforms faced harsh conditions due to the deteriorating market, but photomask substrates for large panels saw firm shipments.

➤ Processing, Trading & Specialized Services Business

[Net sales of ¥22.8 billion (down 6% year on year), operating income of ¥2.6 billion (down 25% year on year)]

- Shin-Etsu Polymer reported stable shipments of semiconductor wafer-related containers, but input devices for automobiles were affected by deteriorating market conditions.

[Supplementary explanation of the financial results]

- Assumed foreign exchange rates for operating forecasts: US\$1 = ¥107 and €1 = ¥120 from July onwards.
- Foreign exchange sensitivity of ordinary income: ¥2.6 billion per year for U.S. dollar and ¥0.2 billion yen per year for euro, at a fluctuation of ¥1.
- Capital investment in the fiscal year ending March 31, 2021 is estimated to be ¥240 billion, and the level of depreciation and amortization is expected to be ¥140 billion yen.

[Q&A Session]

<PVC/Chlor-Alkali>

Q	Please describe the demand and price trends of PVC in North America.
A	<ul style="list-style-type: none"> • There are two factors behind the price increase in North America in July. One was the Company's action to first capture business in regions other than North America, where a rebound in demand was seen, while working to raise prices in the U.S.. In the U.S., the situation was very severe in April and May, but as lockdown measures were lifted in June, demand which had been restrained returned. Demand bounced back strongly in June and July, which supported the price increase. As we expect this trend to continue, we announced price increases also for August. <p>The second factor is that consumers are spending money around the house instead of traveling and eating out. When sales at home centers increase due to demand for house remodeling, PVC products, one of the construction</p>

	<p>materials, also sell well. For example, fences made of PVC and other products are going quite strong. Normally, August is the month when markets become less lively in summer, but demand is growing steadily.</p>
Q	How about markets outside North America?
A	<p>India and Brazil are large markets, and it is obviously better when they are going strong, but demand has been steady in other regions where we are selling out our products. Since demand in developed countries in North America and Europe are relatively firm, prices have not collapsed even though the resumption of economic activities is delayed in Brazil and India. In fact, our exports in August have sold out following price raises, so we view that demand as firm.</p>
Q	Please describe the market conditions for caustic soda.
A	<p>As the production of PVC increases, the demand for chlorine increases and caustic soda, which is a co-product, also becomes active in the market. Therefore, the phenomenon where supply and demand loosens sometimes occurs.</p>
Q	What is your outlook for demand for PVC?
A	<p>Demand bounced back in June and is further growing in July. We have been receiving a lot of orders also from customers in North America, and we will be able to maintain the same level in August. From autumn onwards, there is usually a pattern of seeing autumn demand followed by the winter slump, but if the original spring demand (April, May) shifts, we can maintain the same shipment level. There are two types of views among our customers—one is to take a cautious approach and the other is to be confident until the end of the year. It is difficult to project the future U.S. economy, because there is no certainty of what will happen with the increase in infections and the continuation of unemployment benefits. Under these circumstances, our customers have been operating their plants smoothly so far, and we will respond appropriately. We are making efforts to record favorable results this year by taking various measures rather than leaving our fate to the economy.</p>
Q	Please describe the profit/loss status of Shintech in the second quarter (April–June quarter).
A	<ul style="list-style-type: none"> • The situation was poor in April and May, but a recovery was made to some extent in June. Even under these circumstances, Shintech was operating at

	<p>full capacity, so we expect to perform fairly well relative to the PVC industry overall. That said, compared with the January–March quarter, profit declined in the April–June quarter.</p> <ul style="list-style-type: none"> • In North America, PVC prices fell 8¢ in total in April and May, but recovered 3¢ in June. However, the price cuts were more severe in markets outside North America. We will recover prices in July and August while the market is tight and continue to operate at full capacity.
Q	Please describe the status of the ethylene plant operation and depreciation expenses.
A	<ul style="list-style-type: none"> • Full-scale depreciation of the ethylene plant will begin in April. The results of the first quarter reflect the January–March quarter results for Shintech, so we see no major increase in depreciation expenses.

<Silicones>

Q	What is your sales outlook for the July–September quarter onwards?
A	<p>The Company produces many high-value-added silicone products for specific customers. The April–June quarter saw a decline in demand for our products as the performance of customers’ products was weak due to the impact of stagnant economic activities. From the July–September quarter onwards, we will sell our products in response to customers’ creative efforts, for example in cosmetics. Demand for EVs is returning relatively quickly, so we will focus on silicone products for automotive applications. By combining these approaches, we will strive to revitalize sales from the July–September quarter.</p>

<Semiconductor Silicon>

Q	Please describe the market status in the April–June quarter and your outlook for the July–September quarter.
A	<ul style="list-style-type: none"> • In the April–June quarter, overall shipments in the market rose year on year (YoY) and quarter on quarter (QoQ). <p><Market status by diameter size> [300 mm] YoY and QoQ growth</p> <ul style="list-style-type: none"> • In memory applications, which account for more than 60% of demand, sales

	<p>were strong for PCs and servers. We estimate that some of the items were shipped to build up inventory levels. We expect the status for memory applications will remain largely unchanged in the July–September quarter.</p> <ul style="list-style-type: none"> • Meanwhile in the area of logic and other applications, sales will remain strong for cutting-edge devices, but we are seeing variances in sales performance for general-purpose devices depending on the customer and product type. In the wafer industry overall, we expect shipments in the July–September quarter to be close to those in the April–June quarter. • Although some memory manufacturers are concerned about the weakening of device demand in the October–December quarter, the impact on wafer demand is yet to be seen. <p>[200 mm] Slight YoY growth and QoQ growth [150 mm or smaller] Slight YoY growth and QoQ growth</p>
Q	What are the factors underlying the earnings of the Company from the January–March quarter to the April–June quarter?
A	<ul style="list-style-type: none"> • Factors contributing to the improvement included increased volumes, progress in cost reductions, and lower depreciation expenses.
Q	What is your outlook for the July–September quarter onwards?
A	<ul style="list-style-type: none"> • As for the volume of 300 mm wafers, we expect the current steady trend will remain for the most part in the July–September quarter. However, from October, it will depend on the demand for final products. Demand for 200 mm wafers was strong in contrast to the weak demand for automotive, smartphone and industrial applications. We are concerned about a backlash (inventory adjustment). • Prices are based on long-term contracts and are expected to remain stable with no major changes going forward.
Q	What are your views on market risks, including COVID-19, U.S.–China trade friction, and China’s promotion of domestic production?
A	<ul style="list-style-type: none"> • We are closely watching whether the COVID-19 and U.S.–China issues will disrupt the supply chain and how they will affect the economy in the future. Wafer users are mainly in Asia, and we have built our supply chains mainly in Asia. We have a plant for 300 mm wafers in the U.S. and we can also export our products from Japan, so we will be examining our supply chain while keeping an eye on future trends. • As for the procurement of materials, our basic policy to procure from multiple

	<p>sources remains. We will not limit procurement to a certain country, region or supplier when operating our business.</p> <ul style="list-style-type: none"> • As for the domestic production of silicon wafers in China, it appears that mass production of 300 mm monitor wafers has begun. We are closely watching when the production of prime wafers will begin.
Q	What is the inventory status of customers?
A	<ul style="list-style-type: none"> • We think it is possible that customers increased their inventory in March and thereafter. The inventory months for 300 mm products may be at a higher level than that of about two years ago, but we don't think there will be a big change in this one year. • As for the future, if demand for 300 mm memory and logic decreases due to a decline in final product demand, inventory adjustments may likely occur, but we expect customers will maintain stable inventory levels. • There are no major differences between memory and logic. Rather, the way of thinking may differ slightly depending on the customer's purchasing policy and location.

<Electronics & Functional Materials>

Q	What is the status of photoresists?
A	<ul style="list-style-type: none"> • Since the number of lithography layers (number of masks) increases with miniaturization, the growth of photoresists does not necessarily correspond to the increase in the number of wafers. Since we are a leader in this field with cutting-edge strengths, we will continue to expand our share. • We expect to see further growth in EUV photoresists as the EUV technology continues to progress going forward.
Q	What is the status of photomask blanks?
A	<ul style="list-style-type: none"> • We have just recently expanded our capacity for photomask blanks and will continue to expand in line with the demand for cutting-edge products. We are currently in the process of developing EUV in response to the strong requests from customers.

<Company-wide>

Q	What are the changes to your capital investment plan?
A	<ul style="list-style-type: none">• As for the expansion of Shintech, at one point, the spread of COVID-19 prevented workers from gathering, but we have overcome the issue and are proceeding as planned.• Investment in silicones covers a wide range of things. Demand has been changing; for example, there have been weak sales of products for automotive applications and poor sales of products for use in cosmetics. Therefore, we are responding by changing the content of our investment.• Investment in optical fiber preforms, which involves working with a joint venture, was partially postponed.
Q	What is your outlook for main products in the July–September quarter?
A	<ul style="list-style-type: none">• In silicones, we will make up for the poor performance in some areas, e.g., automotive applications and cosmetics, by making a strong recovery in other areas.• In the field of cellulose, we will further promote the growth of products for pharmaceutical formulation which have been on the rise.• Semiconductor silicon is expected to remain stable as in the first quarter.• As for magnets, there was a period when processing plants were unable to operate due to the temporary suspension of the economies of the Philippines and Malaysia. They are now in full operation, and will make up for the past suspension in this July–September quarter.• We will work to expand the growth of lithography-related products, such as photoresists and photomask blanks, shown in the first quarter, also going ahead.
Q	Please provide details on construction in progress.
A	<ul style="list-style-type: none">• Although the balance of construction in progress decreased by nearly ¥150 billion from the end of the previous fiscal year, the main reason for the decrease was the transfer of the ethylene plant in the PVC/Chlor-Alkali business segment to the real account.• In each of the segments other than the PVC/Chlor-Alkali Business, we saw a change (increase or decrease) of about several billion yen.
Q	Please describe the issues faced due to COVID-19 and your countermeasures.

A	<ul style="list-style-type: none">• One example is that we had to suspend production at magnet processing plants overseas. We have overcome the problem, and we will establish a system to prevent the suspension of operations in the future. We will review our supply chain and prepare for the future so as not to cause inconvenience to customers even if we were to partially suspend operations.• The status of demand for silicone and other products is changing, but we will take the situation as a business opportunity and respond appropriately. The ability to speedily respond to such a situation will make a difference. We will carry out various measures one by one and work to achieve results.
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