

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Half Ended September 30, 2020

Date	October 27, 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• Yukihito Adachi, General Manager of Public Relations Department
Reference material	<p>Consolidated Financial Results for the First Half Ended September 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.

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

- In the second quarter (July–September quarter), the Company posted the following results:
Consolidated net sales of ¥351.1 billion (down 12% year on year, down 2% quarter on quarter),
operating income of ¥93.3 billion (down 9% year on year, up 3% quarter on quarter),
ordinary income of ¥97.0 billion (down 11% year on year, up 2% quarter on quarter), and
net income attributable to owners of parent of ¥70.9 billion (down 12% year on year, up 2% quarter on quarter).
- Looking at the year-on-year change, the decline in income from a year earlier was in the PVC/Chlor-Alkali Business and Silicones Business segments, mainly due to softening market conditions. The Company met its forecasts announced in July and posted a higher profit from the level of the previous April–June quarter.

[Forecast for the current fiscal year]

- The Company released its full-year earnings forecast for the fiscal year ending March 31, 2021 on the assumption that there would be no second wave of COVID-19 and no restriction on economic activities to prevent the spread of the disease. The Company expects consolidated net sales of ¥1,430 billion and ordinary income

of ¥390 billion. Although both net sales and ordinary income will decrease by 7% compared with the results of the previous fiscal year, the growth in ordinary income for the five years from the fiscal year ended March 31, 2016 to the forecast for this fiscal year will be an annual average (CAGR) of 12.1%.

- The annual dividend is expected to be ¥240 per share (dividend payout ratio of 35%), an increase of ¥20.
- The Company maintained its Moody's rating for this fiscal year, as a result of which its rating became the highest among Japanese business companies. It will make use of its financial base reflected in the rating. The Company will also continue to maintain the health and safety of its employees and work to improve performance by making efforts to secure sales and retain high operating rates.

[Status by segment]

- [PVC/Chlor-Alkali Business] Demand for PVC in North America recovered steadily from June. The market is extremely tight due to supply shortages caused by natural disasters and other factors. The Company recouped the price drops that occurred in April and May in three months from June to August, managed to raise prices in September, and is working to raise prices further this month. While demand is recovering also in overseas markets, market prices have been rising significantly since the supply from the U.S. was in effect temporarily suspended.
- [Silicones Business] Many of the Company's customers reside in relatively long supply chains, and inventory accumulation took place during the early stage of the period when restrictions were placed on economic activities. Although the demand for automobiles and other final products recovered thereafter, it took some time for the customers to use up their inventories. While such phase difference was experienced, we will expand sales from this month onwards. The Company will accelerate the launch of new products and strengthen its presence in markets where it has had only limited presence to date.
- [Specialty Chemicals Business] We will focus on promoting major growth of cellulose. Demand for pharmaceutical formulation has been growing steadily, and we will accelerate sales. We will also promote marketing for use in food and meat substitutes. In addition, the Company will work to develop environmentally friendly products.
- [Semiconductor Silicon Business] The performance of products, mainly cutting-edge products, continued to be generally strong. We are seeing signs of recovery also in

200-mm products.

- [Electronics and Functional Materials Business] Rare earth magnets are benefiting from increased demand due to the shift to electric and automated vehicles and investment in wind power generation, as well as from security considerations concerning the procurement of ingredients and raw materials that have been initiated in Europe. We will actively sell our technology and supply capability. As announced earlier this month, we will invest in lithography-related materials to further expand our business.

We will speed up the launch of new materials related to 5G.

[Supplementary explanation on the forecasts (Yukihito Adachi, General Manager of Public Relations Department)]

- Assumed foreign exchange rates for operating forecasts: US\$1 = ¥105 and €1 = ¥123 from October onwards.
- Foreign exchange sensitivity of ordinary income: ¥2.7 billion per year for the U.S. dollar and ¥0.2 billion yen per year for the 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.

[Q&A Session]

<PVC/Chlor-Alkali>

Q	Please describe the status of Shintech in the second quarter (April–June quarter) and the projections for the third quarter and thereafter.
A	<ul style="list-style-type: none">• Although we had concerns in the April–June quarter, PVC prices began to recover in June, and we focused on this recovery in closing our results for the quarter. With the price increase for October most likely to be accepted, we have no concerns currently.• Prices might weaken in the months of November and December due to normal seasonal factors. However, sales for November are significantly favorable mainly in North America, and we do not expect prices to weaken.

Q	Please describe the demand and supply status of PVC in North America.
A	<ul style="list-style-type: none"> • (Regarding the force majeure of two firms in North America) One firm declared a force majeure due to hurricane damage. Although it was scheduled to launch this month, the status is not clear. As for the other firm, it is not clear why a force majeure was declared. It seems that the firm is not able to respond to customers adequately even at the present time. In any case, we expect that both firms will resume production in the near future. Meanwhile, orders for November are quite strong, and it appears to be a matter of demand growth being early rather than a supply issue. Therefore, we do not expect prices to weaken. • As for the coming year and onwards, in addition to seeing steady housing starts, the active use of pipes for the Mexican border walls (Trump wall) has been generating special demand. Customers are also paying close attention to ensuring a smooth inventory flow in the distribution phase. Since the products are flowing smoothly from resin to production, distribution, and construction, we expect the status to be favorable for a while.
Q	What is your outlook for the global supply and demand for PVC and caustic soda?
A	<p>[PVC]</p> <ul style="list-style-type: none"> • Demand for PVC is expected to remain strong. On the other hand, as for supply, there is no major factor other than reinforcement by the Company, so we expect supply and demand to be tight. • (Regarding PVC production in China) Since China is focusing on environmental policies, it is unlikely to relax its restrictions on PVC production using the carbide method. We do not expect PVC under the carbide method to disrupt global supply and demand. <p>[Caustic soda]</p> <ul style="list-style-type: none"> • Demand is weak mainly for alumina, and the market for caustic soda remains weak this year. Demand for chlorine is strong due to favorable demand for PVC, causing caustic soda (as a by-product) to be excessive. Meanwhile, some manufacturers are reducing caustic soda production. We estimate that future demand will depend on overall economic trends. • As for aluminum, a certain major manufacturer is considerably cutting back production. At present, the aluminum market seems to be recovering in line with copper, but not enough to restore the production level. We believe that if production of aluminum recovers, demand for caustic soda will also pick

	up.
Q	What is the status of the in-house ethylene plant?
A	The price of ethane has risen, but the price of ethylene has also risen. Therefore, we have been able to maintain the benefit of producing ethylene in-house.
Q	What is the progress of investment?
A	We faced difficulties in early spring when COVID-19 spread. Fortunately, there were hardly any infected persons, and the construction work is moving along. However, construction was temporarily suspended due to the hurricane, so there has been a slight delay.

<Silicones>

Q	What was the status for the second quarter (July–September quarter)?
A	<ul style="list-style-type: none"> • As a result of our efforts to increase the ratio of functional products, we were able to limit the range of decline in profit in the July–September quarter. • In addition to the recovery in demand for automotive applications, the sales volume of construction sealants also increased. Sealants are generally regarded as general-purpose products, but the Company produces many products that pursue functionality.
Q	How is the recovery in demand for silicone products?
A	Generally speaking, the supply chain of general-purpose silicone products tends to be short, while that of functional products (e.g. those for automotive and semiconductor applications) tends to be long. For this reason, there is a difference in the recovery period of final products and that of our products. Beginning this month, the recovery in products for vehicles has become more prominent, and we expect sales of our products to increase accordingly.
Q	What is the status of capital investment?
A	Monomer investment is almost complete. We are restructuring polymer investment according to market conditions.

<Semiconductor Silicon>

Q	What was the performance status for the second quarter (July–September quarter)?
A	<ul style="list-style-type: none">• The QoQ decrease in sales and profits was due to a lower volume of 200 mm shipments and a slight appreciation of the yen.
Q	Please describe the demand status for the second quarter (July–September quarter) and onwards.
A	<ul style="list-style-type: none">• In the July–September quarter, shipments of 300 mm wafers were the highest on a quarterly basis. While the October–December quarter is usually a period of low demand, we do not see signs of such a situation this year. We believe this is due to the resumption of economic activities, inventory buildup caused by concerns about the U.S.–China friction, and changes in trends in the semiconductor industry under the pandemic. We are not certain whether this status will continue next year from January onwards, but we believe that silicon manufacturers will pick up their operation.• There is strong demand for products over 28 nm, which is somewhat unexpected. It is possible that this is due to excess demand caused by concerns about the U.S.–China friction in addition to the recovery in demand for electronic equipment, automobiles, and machine tools, which has driven the demand for devices used in such products.
Q	Please describe the price trends.
A	<ul style="list-style-type: none">• In the first half of this year, there was a movement among silicon manufacturers that have not been able to pick up their operation to lower prices in order to capture spot demand.• Wafer prices are falling moderately throughout the industry, but the Company is working to maintain prices.
Q	What is the plan for reinforcing production capacity?
A	<ul style="list-style-type: none">• From 2022 onwards, we expect that supply and demand for the 300-mm wafers will be very tight. We will respond with brown field investments for the time being and will consider making green field investments if further capacity expansion is required.

Q	What is the inventory status of customers?
A	<ul style="list-style-type: none"> • We view that the inventory level is slightly increasing for both 300-mm and 200-mm wafers. Given the COVID-19 pandemic and supply chain issues, device manufacturers are altering their approach to maintain a higher wafer inventory than they used to have.

<Electronics & Functional Materials>

Q	What was the performance status for the second quarter (July–September quarter)?
A	<ul style="list-style-type: none"> • Demand for lithography materials, such as photoresists and photomask blanks, was strong. • As for rare earth magnets, production in the April–June quarter had to be reduced due to the restrictions placed (lockdown) on economic activities, but operations recovered in the July–September quarter. In addition, we were able to increase the sales volume of products mainly for vehicle applications.
Q	What is the status of investment (¥30 billion) in photoresists?
A	<ul style="list-style-type: none"> • The magnitude of investment including construction of buildings at two locations—Taiwan and Japan—has amounted to ¥30 billion. • This investment is made to meet our responsibility in securing the supply required by our customers, and is not limited to specific layers or nodes. • The investment announced this time is related to photoresists and does not include other lithography materials (mask blanks).
Q	What is the status of rare earth magnets in the European market?
A	As the EU promotes greening of the economy through the introduction of renewable energy, it is reviewing procurement (supply chain) that is dependent on a specific country. In the area of wind power generation and EV-related fields, we will respond accordingly as it can contribute to expanding demand for our magnets.
Q	Please describe the market conditions for optical fiber preforms.
A	<ul style="list-style-type: none"> • Demand for the three major telecommunications companies in China is recovering, but market conditions remain difficult due to excessive supply. • The Company's business is led by a joint venture in China. Since our joint venture partner is strong and solid, we intend to expand this business

together.

<Company-wide>

Q	What is your dividend policy?
A	<p>The Company's dividend policy has been for its shareholders to receive dividends steadily over the long term.</p> <p>This policy will remain unchanged going forward. We increased the dividend with a payout ratio of 35% also in mind. We would like you to look at dividends with a long-term perspective rather than judging the dividend payout ratio on a single-year basis.</p>