

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the Third Quarter Ended December 31, 2020

Date	January 27, 2021 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	Consolidated Financial Results for the First Three Quarters Ended December 31, 2020

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

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

- In the third quarter (October–December quarter), the Company posted the following results:
Consolidated net sales of ¥379.8 billion (down 2% year on year, up 8% quarter on quarter), operating income of ¥100.7 billion (down 7% year on year, up 8% quarter on quarter), ordinary income of ¥100.8 billion (down 10% year on year, up 4% quarter on quarter), and net income attributable to owners of parent of ¥73.0 billion (down 11% year on year, up 3% quarter on quarter).
- Looking at the year-on-year change, approximately 60% of the decline in income from a year earlier was in the Silicones Business segment. This was mainly due to a delayed recovery in the functional products market where the Company demonstrates strength. In particular, products for cosmetics continued to face challenges.
Nevertheless, the Company managed to increase its earnings compared with the previous July–September quarter and post higher profits consecutively from the January–March quarter of the year before. With just over two months to go in the current fiscal year, the Company will diligently work to finish the term.

[Status by segment]

- [PVC/Chlor-Alkali Business] Demand in the last two months was generally so strong worldwide that it was hard to believe we were in the months of November and December. Since last month, the market price of exports has been exceeding that of

North America. Shintech's new plant is working towards its startup mid-year. And as announced today, we began taking steps for further reinforcement.

- [Silicones Business] The phase difference in demand recovery that we discussed in the earnings call three months ago has been eliminated. Functional products for automotive applications and others recovered, and conditions in the general-purpose products market recovered sharply, mainly in China. The market for products for cosmetics has also begun to recover overseas.
- [Specialty Chemicals Business] Cellulose for pharmaceutical formulation continued to hold steady.
- [Semiconductor Silicon Business] The performance of products, mainly cutting-edge products, continued to be generally strong. The balance of supply and demand for 300-mm products changed from balanced to tight. Supply and demand were balanced for 200-mm products.
- [Electronics and Functional Materials Business] Rare earth magnets are performing well in all applications. Our lithography materials are the most advanced, and we will expand our business in all directions. We will speed up the launch of mass production of new materials related to 5G.
- As the largest manufacturer of semiconductor materials, including semiconductor silicon, the Company will closely monitor and promptly respond to the growing semiconductor device market.

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

- 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.
- Foreign exchange sensitivity of ordinary income: ¥2.9 billion per year for the U.S. dollar and ¥0.2 billion yen per year for the euro, at a fluctuation of ¥1.

[Q&A Session]

<PVC/Chlor-Alkali>

Q	Please share details of Shintech's performance in the third quarter (July–September quarter) and the fourth quarter (October–December quarter) along with the status of supply and demand.
A	<p>[3Q (July–September quarter)]</p> <ul style="list-style-type: none">• Price increases will continue every month during the quarter and there will be no special factors. <p>[4Q (October–December quarter)]</p> <ul style="list-style-type: none">• Profits in the October–December quarter will be quite favorable. <p>[Current supply-demand status and future outlook]</p> <ul style="list-style-type: none">• Demand in November and December was so strong that it was hard to believe that we were in those months, and the supply-demand status for January is also very much in our favor. Some customers are able to maintain inventory, and we began seeing slight signs of adjustments in their production volume compared to the situation in November and December, but that's about all.• The supply-demand balance for exports remains tight. We expect that supply and demand will continue to be balanced from now to early spring.
Q	Please describe the background to the favorable market conditions for PVC.
A	<ul style="list-style-type: none">• Demand is growing steadily not only in North America but also around the world. Production in North America, which is an export base, has declined due to hurricanes and other circumstances, and this has placed a stronger burden on exports, creating a tight supply-demand situation that remains intact. Demand itself is strong in Asia, particularly in China and India, and unexpectedly strong also in Central and South America. The reversal between export and domestic prices has occurred in North America and is still continuing.• In North America, the contract is a combination of one or two-to-three-year contracts, and we need to abide by the contract obligations. Under these circumstances, we are considering how to incorporate these price differences into our business. Our export position has been of a decent scale to start with, and we respond to overseas customers in the same way as in North America. As we continue to fulfill our role as a supply base, we believe that we can take advantage of such price differences.

Q Could you please elaborate on the expansion of production capacity for PVC?

[Background to facility expansion]

- This is a plan that we had been considering and working on for a long time rather than something that was triggered by the recent strength in demand. It also reflects the trend that demand for PVC, mainly in relation to infrastructure, will steadily increase going forward. Since the addition of new capacity is being held back on the market, we are steadily expanding the capacity of Shintech's franchise.

[What is your view on profitability?]

- We believe that the timing of investments so far has all been good. After constructions were completed, all of the facilities succeeded in a vertical start-up and have been operating at full capacity since. The same goes for the new plant that will be launched this year. This is a brownfield investment, and we believe it to be an efficient investment even compared to the investment made in the first period in terms of volume and capex.

[Medium- and long-term supply and demand of caustic soda]

- Demand for caustic soda is expected to grow gradually. Aluminum is lightweight, and the trend to use it for automobile body continues. While there has been a trend to promote paperless operations, the demand for paper to make containers and to use for wrapping is also increasing. Caustic soda is used for various applications, so the demand will increase as long as industrial activities increase. The rest will be a function of cost competitiveness.

A

[Risk associated with capacity reinforcement]

- In terms of demand, we have seen a certain level of growth in the past, even excluding China, and we expect that growth will continue going forward. In addition, the Company's cost competitiveness is no longer at a level that anyone can reach. Even the brownfield investment for capacity expansion represents a significant amount, and it is not easy to achieve a competitive advantage in both chlorine and ethylene.
- Although there is a risk of construction delays, the investment announced this time is meant to start construction on the existing foundation. Therefore, we believe that the risk is extremely low.

[Environmental advantage]

- Ethylene is derived from ethane, but since ethylene from refineries will be used as a raw material for petrochemicals in the future, we feel the

	<p>superiority of raw materials is maintained. On the other hand, environmental regulations in the U.S. are quite strict, and the Company is proactively taking the initiative to strengthen its capacity amid such a regulated environment. Under the new Biden administration, environmental regulations will obviously become stricter, so it was a positive thing that we received the construction permits before that.</p>
Q	What is your view on the profitability of in-house ethylene production?
A	<ul style="list-style-type: none"> • The ethylene spot market rose considerably in December and January. <p>Naturally the producer economics was better, and we can say that we made a good profit margin.</p>

<Silicones>

Q	What is your future outlook?
A	<ul style="list-style-type: none"> • Sales for automobiles are growing steadily. • Cosmetics have begun to recover in overseas markets, and we will continue to actively sell products that are recovering. In addition, we are making the necessary investments to promote the growth of high-function products other than cosmetics. We are in the midst of pursuing our priority objective of rapidly pushing the growth of high-value-added functional products in which the Company demonstrates its strength.
Q	What about general-purpose products?
A	<ul style="list-style-type: none"> • Although the ratio of general-purpose products is not large, the market price in China recovered rapidly in the October–December quarter. There has been a backlash since then, but such fluctuation occurs all the time.

<Semiconductor Silicon>

Q	Please describe the demand and price trends in the third quarter (October–December quarter) and onwards.
A	<p>(Overall market)</p> <ul style="list-style-type: none"> • The wafer market rose significantly in the October–December quarter compared with the same period a year earlier. Throughout 2020, growth was positive at about 5%. By diameter, 300-mm wafers showed positive growth

while 200-mm wafers and wafers of 150 mm or less marked slightly negative growth.

- The market usually goes into a downward phase from November, but from last year to this year, demand has rather been increasing every month. We believe that one underlying factor was the swift recovery in demand for semiconductors for automobiles and industrial equipment, which had been sluggish in the past, following the resumption of economic activities by countries amid the COVID-19 pandemic. In addition, we feel that a change in trends in the semiconductor industry as a whole exists as an undercurrent.

(300 mm)

- The market has been recovering since last April. In the October–December quarter, demand for polished wafers (PW) for memory was generally flat. Meanwhile, demand for epitaxial wafers (EPW) for logic devices, including foundry, was extremely strong and increased its share in the overall demand for 300-mm wafers.
- PWs for memory are expected to continue to be steady in the future, but there are some contrasts such as customers with healthy inventory levels in comparison to customers with slightly heavy inventory levels. We expect demand for PWs for memory will depend on the final demand trend for DRAM and NAND.
- Demand for EPWs for logic devices is quite strong from all customers, and we are beginning to have difficulty in responding to all requests. We recognize that the strong demand includes demand to build up inventory and will continue to take a cautious approach as conventionally done.

(200 mm)

- In the October–December quarter, demand recovered sharply, especially in December. We feel this is due to a shortage of devices for automobiles and industrial equipment, but orders for 200-mm products have been increasing month after month. Given the current momentum, we expect this strength in demand will continue for a while.

Q Please tell us about greenfield investment.

A • At present, it is not that there is a shortage of wafers on the whole; customers are keeping an eye on the situation. The Company still has some room for expansion based on brownfield investment, but we get the feeling that we should decide on the next greenfield investment in the near future.

	<ul style="list-style-type: none"> • The Company's basic stance remains as before; it will not make investment based on preceding expectations.
Q	What is the status of wafers for cutting-edge products?
A	The more advanced a product becomes, the less productive manufacturing becomes and the higher the inspection cost required. We are working to change the price structure by node.
Q	What is the ratio of long-term contracts?
A	We had previously stated that the ratio of long-term contracts for 300-mm products would be 80 to 90% in 2021. Subsequently, we made progress with some users, and the ratio is now over 90%.
Q	What is the investment status in the wafer industry?
A	We feel each wafer manufacturer has its own views. Our view is that there is not much room for expansion in the brownfield investment for 300-mm wafers in the industry.
Q	What is your view on the shortage of automotive semiconductors?
A	There are many types of semiconductors for automobiles. It is our view that a shortage exists not in all types of semiconductor devices but in certain types.

<Electronics & Functional Materials>

Q	How was the performance from the second quarter (July–September quarter) to the third quarter (October–December quarter)?
A	<ul style="list-style-type: none"> • Although sales of magnets increased significantly, profits did not increase as much. There was no increase in sales prices in conjunction with a rise in the prices of raw materials for magnets in the October–December quarter in comparison to the July–September quarter. • The profit of photoresists has slightly decreased due to the difference in product mix. Recently, there have been media reports that raw materials for photoresists are in short supply. However, since the Company secures a sufficient supply under contracts, this is not the cause of the decrease in profit.

Q	What is your mid-to-long-term projection for rare earth magnets?
A	<ul style="list-style-type: none">• We do not expect the trend toward EVs will reverse. The Company operates within a pyramid centered on existing traditional automakers, and we are working closely with customers to see how the conversion to EVs will proceed. In the automobile industry, things usually progress in a period of five to seven years, so we will invest accordingly.• In the future, there will be moves by new manufacturers to produce drive motors. There will be a new market.• In terms of how to get involved in China, where electric vehicles are becoming increasingly popular, we will first follow the trend of traditional customers selling EVs in China. We have yet to start working with local manufacturers in China, and we will consider how to go about it. Outside of China, we are quickly taking steps with manufacturers of drive motors.• As for production capacity, we will consider how to increase our capacity efficiently at existing production bases when appropriate.