

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the Fiscal Year Ended March 31, 2021

Date	April 28, 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• Yukihiro Adachi, General Manager of Public Relations Department
Reference material	Consolidated Financial Results for the Fiscal Year Ended March 31, 2021

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

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

- In the fiscal year ended March 31, 2021, the Company posted the following results: Consolidated net sales of ¥1,496.9 billion (down 3.0% year on year), operating income of ¥392.2 billion (down 3.4% year on year), ordinary income of ¥405.1 billion (down 3.1% year on year), and net income attributable to owners of parent of ¥293.7 billion (down 6.5% year on year).
- Although income declined from the previous fiscal year, ordinary income exceeded the financial forecast by 4% to reach the ¥400.0 billion level.
- Net income per share was ¥707. ROIC came to 17.2% and ROE was 10.7%.
- The Company will pay an annual dividend of ¥250 per share, up ¥30 per share from the previous fiscal year.

[Status by segment]

- [PVC/Chlor-Alkali Business] Demand for PVC continues to be strong. In North America, we raised prices by 14 cents/lib in total from January to March and are proceeding to raise them by 4 cents/lib in April and 3 cents/lib in May. The market price of exports continues to exceed that of North America. Market conditions for caustic soda have also turned around.
- [Silicones Business] Although recovery had been slow until last fall, demand has recently been growing strongly, and we marked record-high sales in March.

- [Specialty Chemicals Business] Cellulose for pharmaceutical formulation continues to hold steady. Products used for purifying automobile exhaust gas have recovered.
- [Semiconductor Silicon Business] The supply-demand balance for 300-mm products is very tight. The balance of supply and demand for 200-mm products changed from being in balance to tight.
- [Electronics and Functional Materials Business] Rare earth magnets are in high demand in all applications. Our lithography materials, primarily the most advanced products, are performing strongly in all directions. We will take this opportunity to accelerate the development and launch of new products.
- Ordinary income has been rising every quarter since last year- from ¥88.0 billion to ¥95.2 billion, ¥97.0 billion, ¥100.8 billion and ¥112.0 billion. We will work to maintain this path.
- The Company has yet to release its consolidated operating forecasts, because it is difficult to make reasonable operating forecasts for the next twelve months at this point in time. We will promptly disclose them as soon as we can.
- We will continue to maintain the health and safety of our employees and strive to improve our performance in an aim to take our business to the next level of profitability.

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

- Capital investment in the fiscal year ending March 31, 2022 is estimated to be ¥220.0 billion, and the level of depreciation and amortization is expected to be ¥160.0 billion.
- Foreign exchange sensitivity of ordinary income: ¥2.9 billion per year for the U.S. dollar and ¥0.2 billion per year for the euro, at a fluctuation of ¥1.

[Q&A Session]

<PVC/Chlor-Alkali>

Q	Please describe the supply and demand environment and the future outlook for PVC.
A	(Supply and demand environment) <ul style="list-style-type: none"> • From the summer of last year to the present, the PVC market has tightened

rapidly due to supply problems in addition to steady demand, and prices have risen.

- In regions other than North America, conditions are varying; PVC demand continues to be strong in some areas while the economy is stagnating due to the spread of COVID-19 infections in other areas, such as India. In general, however, demand is steady. Meanwhile, the supply in North America is returning to normal. Although market price in overseas markets may have peaked, we expect demand in North America to stay strong. One root cause of this is the housing shortage. The housing shortage in the U.S. is quite serious and the prices of lumber used for housing are skyrocketing. Housing demand is growing due to several factors, including the household formation of young adults and lifestyle changes caused by COVID-19. We expect the supply and demand of PVC will remain in balance in North America.

(Shintech's earnings and the impact of the winter storm)

- Qualitatively commenting on Shintech's earnings for the October-December quarter (consolidated into the Company's results for the January-March quarter) and the January-March quarter, they posted a record-high income in the October-December quarter, and the results for the January-March quarter are even higher. Even with the impact of the winter storm, the numbers reflect the fact that prices are driving up income.

(View of the market)

- Although prices have increased to the current level, there are no signs that market players are increasing their capacity one after another. In addition, as part of China's approach to promote carbon neutrality, a review of the capacity of the coal-based chemical industry is required. It is true that climate was a factor that contributed to the rise in prices, but even without such temporary factors, market conditions would be maintained to some extent. We are now monitoring to see if there has been a shift in the market. There would be nothing better than if I could say that the market has shifted, please don't be concerned. I think there is no doubt that events suggesting the shift are occurring.

Q Could you tell us about the progress of the capacity expansion (first phase) and the sales destinations of the expanded portion?

A • We are in the final stage right now. Last year, our capacity expansion construction was affected by the spread of COVID-19 infections and hurricanes, and this year it was affected by the winter storm. We will strive

	<p>to make up for the construction delay, complete the construction in the middle of this year, and begin the start-up process.</p> <ul style="list-style-type: none"> • The sales destinations of the expanded portion will depend on demand and order price. We expect that demand will continue to be strong in North America and hence will use the expanded capacity to meet the demand there. <p>Since customers currently do not have any inventory, the increased capacity will also be used to build up their inventory.</p>
Q	Please describe the trends in PVC supply and your views on the next investment.
A	<ul style="list-style-type: none"> • We are closely watching what China will do about its chemical industry, mainly the carbide and coal segments, in the country's efforts toward achieving carbon neutrality. I doubt trends will become evident in a year or two, but I think we will gradually be seeing signs of an impact on the PVC market price. • I am sure the price increases in April and May will be accepted. Demand in North America continues to be strong, and customers have no inventory. The reversal of domestic and foreign prices continues, and we also need to raise prices to resolve this situation. As also mentioned in the Financial Summary, we are now considering further expansion of Shintech.

<Silicones>

Q	Please describe the status of the fourth quarter and your future outlook.
A	<ul style="list-style-type: none"> • We are recovering in all fields, including cosmetics, and increasing sales volumes. At the same time, we are raising prices. • Since the functional products that accommodate the specific needs of customers cannot be diverted to other applications, a decline in a customer's demand also resulted in a decline in demand for our products, which caused the delay in recovery in the previous fiscal year. • Demand is currently recovering and the business is doing well. Given that conditions are favorable worldwide, we expect that the current status will continue.

<Semiconductor Silicon>

Q	How was the wafer market in the January-March quarter?
A	<p>(Overall market)</p> <ul style="list-style-type: none"> Shipments in the January-March quarter increased from the same period in the previous year and also from the previous quarter. Although it is a period when demand weakens in most years, this year demand was steady. <p>(300 mm)</p> <ul style="list-style-type: none"> The market has continued to recover since April of last year, and it showed double-digit growth in the January-March quarter from the same period a year earlier. Although growth was flat on a quarter-on-quarter basis, we believe the growth was small due to continued operation at full capacity industry-wide. <p>(200 mm)</p> <ul style="list-style-type: none"> The market has been recovering rapidly since last December. Almost all sectors, including the automotive, industrial, consumer, telecommunications, and gaming sectors, are recovering, and some customers are continuing to build up inventories. <p>(150 mm or smaller)</p> <ul style="list-style-type: none"> The market had been weak since 2018, but it began recovering around last November. We believe that all wafer manufacturers are continuing to operate fully to the extent possible for their manpower.
Q	Please elaborate on the earnings for the January-March quarter.
A	The limited quarter-on-quarter growth in income was primarily due to the impact of higher depreciation expenses, foreign exchange rates and the sales mix, in addition to repair expenses. The sales volume is continuing to move upward.
Q	What is your outlook for the April-June quarter?
A	We expect demand to increase for all sizes compared to the level of the January-March quarter, but given the limit in capacity, I don't think the shipment volume will increase so much.
Q	What is the status of capital investment?
A	<ul style="list-style-type: none"> Currently, demand from the market is strong for 300-mm epitaxial wafers (EPW) and 200-mm wafers in general. We have no plans to invest in new equipment for the 200-mm wafers and will continue to operate under our

	<p>current capacity.</p> <ul style="list-style-type: none"> • The 300-mm EPW is in a state of plateau, and we have received a series of requests from all users to increase the volume from 2022 to 2023. Since there is no room for increases in 2021 or 2022, we are discussing an increase for 2023 and thereafter. • The situation regarding wafers for memory is not clear, but memory manufacturers are also considering increasing the purchasing quantity of wafers from the second half of the fiscal year in anticipation of the tightening of the demand-supply balance in the future. If this situation continues, there is a possibility that all production processes, including single crystal, polishing, and EPW, may face a lack of capacity from the second half of 2022 or 2023 at the latest. • We have been talking carefully with our customers about the expansion, and some customers are beginning to accept significant price increases for new investments. • Our investment last year was mainly to improve quality. We expect the same level to continue in 2021. The amount of investment in 2022 will depend on how much capacity we will need in 2023.
<p>Q</p>	<p>What are the views of customers regarding inventory?</p>
<p>A</p>	<p>The resumption of economic activities in the wake of the COVID-19 pandemic and the friction between the U.S. and China, among other factors, have revealed shortages of goods, leading supply chains to actively raise their inventory levels. Even if demand settles down in six months from now, we expect that customers will maintain inventories at high levels</p>
<p>Q</p>	<p>Please describe your pricing activities.</p>
<p>A</p>	<ul style="list-style-type: none"> • The price of 200 mm is fixed for this year, but negotiations for next year, 2022, will start around the summer. • As for 300 mm, reinforcement will be required in all processes in 2023 and thereafter, and we are expecting a large amount of investment. However, since the amount of investment varies depending on the size of the reinforcement, the ratio of wafers for cutting-edge products and other factors, I cannot say specifically how much of a price increase is necessary. • Wafers are the only products mentioned as a topic of conversation in terms of price, and I feel that prices are disproportionately brought up. I

	<p>understand that pricing used to be an element of concern for you all, but circumstances have changed over the last few years, and prices are now largely fixed based on a contract. Prices change according to specifications, and the contract period and contents are also different. I would like you to understand that we are managing such elements in detail. It is not only photoresists and CMP slurry that support the cutting-edge devices, but all the materials used in the processes are required to have the same level of technology. Unless the levels are perfectly consistent, refinement and accumulation of transistors at the atomic level cannot be achieved. We recognize that wafers play an extremely important role.</p>
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<Electronics & Functional Materials>

Q	How was the performance in the fourth quarter?
A	Preforms for optical fiber are still struggling, but other product lines are all performing strongly.
Q	What are the trends of preforms going into this fiscal year? What about new products?
A	<p>(Preforms)</p> <ul style="list-style-type: none"> • Although the oversupply situation continues, we expect that the installation of fiber cables will increase in the future as part of infrastructure investment, which will contribute to putting demand and supply in balance. When such trend will start in this fiscal year will also depend on orders from the three leading Chinese companies. We are keeping a close eye on the upcoming tenders. <p>(New products)</p> <ul style="list-style-type: none"> • Introduction of new packaging will become one of the key points in future device manufacturing. What we are developing in this field is approaching market launch. • As for EUV blanks, I hope I will have something new to say in the next telephone conference.

<Company-wide>

Q	Please tell us about depreciation and amortization for this fiscal year.
A	<ul style="list-style-type: none">• Depreciation and amortization for this fiscal year is expected to be ¥160.0 billion.• We expect to see a year-on-year increase in all segments except the Specialty Chemicals Business and the Processing, Trading & Specialized Services Business. Significant increases are expected in the PVC/Chlor-Alkali Business and the Semiconductor Silicon Business segments.