

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Quarter Ended June 30, 2021

Date	July 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 Corporate Officer, In Charge of Public Relations• Toshiyuki Kasahara, Corporate Officer, General Manager of Finance & Accounting Department• Yukihiro Adachi, General Manager of Public Relations Department
Reference material	Consolidated Financial Results for the First Quarter Ended June 30, 2021

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

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

- For the first quarter of fiscal year ending March 2022, the Company posted the following results:
Consolidated net sales of ¥434.2 billion (up 21% year on year),
operating income of ¥128.8 billion (up 42% year on year),
ordinary income of ¥130.8 billion (up 37% year on year), and
net income of ¥95.7 billion (up 38% year on year).
- Despite the so-called "base effect," sales and profit increased strongly, and all businesses performed well.
- In particular, the PVC business in North America contributed to profit growth. Shintech contributed significantly to an increase of 2.3 times the profit of Infrastructure Materials.
- The new segmentation was set to better illustrate the core of the Company's business.

[Status by segment]

- [Infrastructure Materials]:
Demand for PVC remained strong. In particular, demand in North America was strong, and we managed to raise prices six times this year. In addition, we reached a decision this morning to raise the price for the seventh time.

In North America, although it is said that the operations of competitors have returned to normal, there is no extra room in the supply of products, and also given the transport costs for export markets, there is currently no connection with Asian market conditions. We believe that Asian markets have hit the bottom.

The housing shortage in major countries is serious, and demand for PVC is increasing not only as a housing construction material, but also as an infrastructure material for residential land. The price for caustic soda has bounced back. We plan to start up the new plant in September.

For your information, what appears to be the effect of the Trump tariffs imposed as sanctions is taking place with a certain PVC product. The product had mainly been imported to the U.S. from China, but recently, importers and Chinese manufacturers have been setting up production bases in the U.S. and there are at least 10 such bases now.

- [Electronics Materials]:
 - In the field of semiconductor devices, full operation continues in both the front-end and back-end, in the direction of miniaturization, and in all areas of memory, logic, power, communication, and sensors.
 - We are also expediting our efforts to increase the capacity of rare earth magnets.
- [Functional Materials]
 - Personal care-related products showed growth of 28% year on year.
 - Healthcare-related products rose 30% year on year.
 - Automotive applications were up 66% year on year.

[Outlook for this term]

- On the assumption that there will be no restrictions on economic activities caused by new waves of COVID-19, the Company's full-year forecasts are:
consolidated net sales of ¥1,700 billion and ordinary income of ¥500 billion.
Based on these forecasts, net income per share for this fiscal year comes to ¥873.
ROIC is expected to be 20% and ROE to be 12%.
The Company plans to increase its annual dividend to ¥300, up ¥50.

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

- Assumed foreign exchange rates for operating forecasts: US\$1 = ¥110 and €1 = ¥130 from July onwards.
- Capital investment in the fiscal year ending March 31, 2022 is estimated to be

¥220 billion, and the level of depreciation and amortization is expected to be ¥160 billion.

- Foreign exchange sensitivity of ordinary income: ¥3.8 billion per year for the U.S. dollar and ¥0.3 billion per year for the Euro, at a fluctuation of ¥1.

[Q&A Session]

<Infrastructure Materials>

Q	Please describe Shintech's earnings trends in the April–June quarter and the full-year earnings forecast.
A	<p>(Earnings trends in the April–June quarter)</p> <p>Profit was up in the April–June quarter from the January–March quarter, and the increase in profit was greater than the previous quarter.</p> <p>(Outlook for this fiscal year)</p> <p>It is fair to understand that the PVC business accounts for a relatively large portion of the profit increase in this fiscal year (forecast).</p>
Q	What are the PVC market trends in North America?
A	<ul style="list-style-type: none"> • On August 1, we will announce a price increase of 4 cents per pound over the two month period of August and September. The U.S. market is so firm that there is almost no link between the market price of North America and those of Asia. At first, many believed that prices would weaken around this time, but now the majority projects that to be unlikely. • (Market continuity) Raising prices over two months is in line with keeping prices at current levels for a long time. Since PVC is a commodity product, no one company can govern the dynamism of a large market, but demand in North America is extremely strong, and we expect that it will continue to be strong for the time being. At any rate, we are working to sustain this status.
Q	Please describe the PVC market conditions in Asia.
A	<ul style="list-style-type: none"> • India's monsoon season is almost over and the infection situation is unpredictable, but the economy is on the move. Demand in and shipments to India are moderate, and the supply of PVC in China has been decreased somewhat for various reasons. With these factors reflected in the market, we believe that the Asian PVC market has hit the bottom. • We think the Asian market price will turn around in August or September.

Q	How about the caustic soda market?
A	Caustic soda is used in a variety of fields and industries, and since demand increases as global economic activities become more active, the pace of recovery was moderate. The market turned around partly because the supply side was unable to accommodate demand due to circumstances on the supply side. Caustic soda manufacturers seem to be carrying out production while closely monitoring the circumstances, so we believe that caustic soda prices will be stable for a while.
Q	What are the risks related to PVC demand and supply?
A	The soaring housing prices are a cause for concern, but this is due to a lack of housing supply. While there are several underlying factors, houses are necessary and so they will be built. Since the supply level is slightly tight, we expect demand to be steady for a long time. However, if the prices rise too much, some adjustments will occur, and the supply and demand balance will be stabilized.
Q	What is the progress of PVC capacity expansion?
A	As for capacity expansion, we were hoping to report a full operation status around this time, but construction was interrupted and delayed due to external factors such as COVID-19, hurricanes, and cold snaps. If the startup of the plant was on schedule, it would have been a launch of great timing. But we expect that the demand itself will remain strong and therefore believe that the slight delay in the launch will not be a problem at all. We are making careful preparations for the maximum production from the startup.

<Electronics Materials>

Q	Please describe the market status in the first quarter (April–June quarter) and your outlook for the second quarter (July–September quarter).
A	<ul style="list-style-type: none"> • All products in this segment increased their profits. • In the second quarter, we expect sales will basically continue to be strong.
Q	Please describe the status of the wafer market by diameter.
A	[300 mm] Increases both on YoY and QoQ basis

- We believe that most of the wafer manufacturers are operating at full capacity.
- Demand for semiconductor devices is strong in all fields. We believe this includes inventory accumulation in each supply chain caused by semiconductor shortages.

[200 mm] Increases both on YoY and QoQ basis

- The 200 mm wafer has a wide range of applications, and demand remains strong, especially for automotive applications. We are seeing strong demand toward 2022 and are considering how to respond, but the price level is not high enough to enable reinvestment.

Q What about capacity expansion for wafers?

A

- Negotiations on contracts for logic are currently the main focus, but some memory manufacturers seem to be starting to worry about a wafer shortage in the medium term.
- Our policy is not to expand capacity ahead of expectations, but to expand capacity as necessary based on contracts.
- We have concluded contracts that include new capacity expansion with some customers and are in the middle of discussions with other customers. Since the content of investment changes depending on the quantity and specifications, the price increase range is not uniform. In addition, even for the same customer, the size and content of investment change due to various factors such as the difficulty level of specifications, productivity, inspection man-hours, and the presence or absence of special processes. For this reason, we continue to have discussions with each customer for each product line.
- In particular, we have received strong requests from logic-related customers, and the magnitude of volume increase has become greater than that of three months ago. Due in part to the fact that the delivery date for production equipment has been extended, new capital investment takes time. Hence a certain level of time is required in responding to volume increase. We have not been able to meet all of the requests for a volume increase for 2022 and 2023.
- Unlike the incremental production increase made to date on an as needed basis, an investment requiring buildings makes the amount of investment large. We continue to have careful discussions with each customer, and they fully understand the costs involved.

Q	Please explain the status of resists, blanks, and preforms for optical fibers.
A	<ul style="list-style-type: none"> • Cutting-edge products, such as resists and blanks, are growing. • Resists for EUV are growing strongly. We believe that our market share is quite high, but we are working to steadily maintain that level. • Please understand a sign of notable progress is the fact that we described EUV blanks in the financial report instead of just mentioning them orally as is conventionally done. Looking at customer trends, the introduction of EUV is progressing, and we are working to respond to this trend. It is also up to customers when EUV blanks will be launched as our product. • As for preforms, bidding and negotiation processes have begun in China, and although we do not expect any dramatic change, we anticipate finally getting out of the difficult phase as the situation is improving from the previous period.
Q	Progress of 5G-related products
A	We have several interesting products with regard to 5G and are starting to supply them to our customers. Although it has yet to become a big business, we are beginning to gain confidence that this will grow into a major business.

<Functional Materials>

Q	What are the underlying factors for higher sales and profit compared with the previous quarter?
A	<ul style="list-style-type: none"> • Sales were solid in personal care products mainly for cosmetics, healthcare products, such as cellulose for pharmaceuticals and silicone for contact lenses, and automotive applications. The figures for this segment also reflect the growth in demand for various other applications. • We are also raising prices in response to higher raw material prices. At the same time, it is all about meeting demand.

<Company-wide>

Q	Please elaborate on the full-year forecast.
A	<ul style="list-style-type: none"> • There are still 8 months left, and various things can happen during that period. We did not come up with these forecasts by accumulating negative factors against the four-fold growth from the April–June quarter. The forecast figures are based on actual results over the past three months, the

	<p>situation in July, the earnings status at Shintech (April-June quarter) and other factors. We did not adopt the view that there is a possibility of a downward swing in a particular segment.</p> <ul style="list-style-type: none"> • Looking around the world, there is an inflationary trend in various areas, so we will quickly raise prices and revise prices in response to such rise in costs. We are actually taking that approach, and our forecasted figures are based on such considerations. • Our new challenge for this fiscal year is to first bring ordinary income to the ¥500 billion level and to achieve further growth in the next term and beyond. This is exactly what we are focusing on and taking initiatives. We will do our best to meet your expectations.
Q	Why did depreciation and amortization decline from the previous quarter?
A	<p>Depreciation begins in accordance with capital investments and operations during the fiscal year and increases from quarter to quarter. If the depreciation period is short, the depreciation may end in the middle of the period. As a result, it is always likely that depreciation expenses in the first quarter will be lower than those in the fourth quarter of the previous fiscal year.</p>