

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Half Ended September 30, 2021

Date	October 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 Half Ended September 30, 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 second quarter (July–September quarter) of the fiscal year ending March 2022, the Company posted the following results:
Consolidated net sales of ¥507.1 billion (up 44% year on year),
operating income of ¥169.5 billion (up 82% year on year),
ordinary income of ¥172.6 billion (up 78% year on year), and
net income attributable to owners of parent of ¥125.1 billion (up 76% year on year).
- All businesses achieved strong growth in both sales and profits compared with the results of the same period of the previous year. In particular, the PVC business in North America contributed to profit growth. Shintech contributed significantly to an increase of 4.3 times the profit of Infrastructure Materials. In general, the challenge for this quarter was how to meet demand.
- At the end of the first half of the fiscal year, the progress against the full-year earnings forecast was 60%. Since some events that require attention are becoming evident, we will place our top priority on achieving the forecasted figures.

[Status by segment]

- [Infrastructure Materials]:

In the U.S., the V-shaped recovery in the market that occurred last summer was

largely due to house repairs associated with people staying at home. However, the subsequent rise in housing demand itself has also been supporting the demand for PVC. Behind this are the household formation by younger generations, lifestyles, and low interest rates. The demand is such that the short supply of housing is becoming a factor behind inflation. As a result, housing construction has been given priority, causing a situation in which public works projects have been left unattended. It is projected that public work projects will start to get active after housing investment settles. In other words, demand will continue for a long time. A similar situation can be seen also in other major markets.

Meanwhile, looking at the Chinese situation, which impacts the Asian market, it seems that the country is changing the order of priorities in its policy.

- [Electronics Materials]:

Device shortages will likely continue for some time (the projected timing at which shortages will be resolved keeps getting extended). Under such circumstances, semiconductor device manufacturers are making aggressive product price adjustments while changing the way they transact. We are also seeing a change in the way companies think about inventories. The momentum for economic security has emerged specifically in the form of research, planning and policies. Regarding rare earth magnets, the roadmap for EV has been finalized, and offshore wind power generation systems will be installed in Japan and the United States as if chasing after the EU, which is ahead. The Biden administration has set out a policy to install wind farms generating 30 gigawatts scale along the U.S. coastline. If converted into rare earth magnets, they will account for about 40% of the current market. Also in this case, economic security has come into play.

- [Functional Materials]

Although this business sector has long been considered resilient to recession, that was not necessarily the case last year. We are working on adjustments in this area. Although an abstract way of saying the market base or product applications are expanding. Thus, we are recognizing a virtuous circle.

[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 billion, and depreciation and amortization is expected to be ¥160 billion (no change).
- Assumed foreign exchange rates for earnings forecasts: US\$1 = ¥110 and €1 = ¥130

from October onwards.

- 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 performance in the second quarter (April–June quarter) and the projections for the third quarter and thereafter.
A	<p>[Factors driving profit growth on a QoQ basis (compared to January - March)]</p> <ul style="list-style-type: none">• The increase in profits was due to higher prices, and we were able to properly raise prices. There was also a quantitative effect as Shintech operated at full capacity in the April–June quarter compared with the January–March quarter when there was the impact of severe cold snaps. <p>[Projections for the third quarter and thereafter]</p> <ul style="list-style-type: none">• In the July–September quarter, we temporarily stopped the plant for safety before a hurricane hit. Although there was no damage to our plant, the hurricane caused a problem in the supply of industrial gas, and it took time before the plant could resume operation. This had a considerable impact. However, the results for the July–September quarter are not disappointing (profit increase on a QoQ basis), so please do not worry.• As natural gas and energy prices in general rise, so do ethane prices, but we are absorbing the rise and making a solid profit, so there is nothing to worry about.• Some may believe that the current state is overly favorable, but what the Company is working on now is how to link the current strong performance to the next term.
Q	Trends in the U.S. PVC market and relationship of trust with customers.
A	<ul style="list-style-type: none">• We have proposed and implemented price increases this year on a consecutive basis. Your understanding is correct in that our way of raising prices these days is slightly different from how competitors do. For example, in August and September, we raised prices somewhat slowly in contrast to the price increases made by competitors. They announced price increases in October, but we delayed our announcement by one month to November. This is a result of our consideration to allow time for customers to pass on the

	<p>prices. If prices cannot be passed on, customers' conditions will get worse. Therefore, we carefully take that into consideration when raising prices.</p> <ul style="list-style-type: none"> • In addition to the above, the Company was also able to show a difference in delivery time compared with competitors. Even in the midst of supply disruptions, we did not declare a force majeure and made efforts to deliver a limited supply through repeated discussions with customers. We have been positively recognized for these efforts.
Q	Views on global PVC supply and demand.
A	<ul style="list-style-type: none"> • We need to keep a close eye on the trends in China. The Chinese government has been working on environmental regulations for quite a long time, and there is even a regulation called Dual Control, which shows how serious they are. I don't think this is just a prelude to the Winter Olympics next year. Nevertheless, the direction of pursuing economic growth remains unchanged, so we are closely watching how the current regulations will be implemented simultaneously. Under such circumstances, this is clearly beginning to have an impact on supply, causing the Asian market to tighten. Given the situation, we are working to ensure that our current strong performance will continue also into the next year. • In light of these circumstances, we have taken steps to further expand Shintech as planned and are now considering what to do next.
Q	Please describe the market price for caustic soda.
A	<ul style="list-style-type: none"> • The caustic soda prices have rebounded and have been rising at a very quick pace. This is certainly good news for the Company. We are now actively incorporating this trend into our earnings. This price increase is also contributing to our profit.
Q	What about the capacity expansion of Shintech?
A	<ul style="list-style-type: none"> • Although there has been a major delay, the new plant will start operation next month (November). There are a few reasons for the delay. Work was affected by the COVID-19 pandemic last year and the hurricanes that hit last year and this year. Taking last year as an example, in addition to the temporary suspension of the construction work itself, the delivery of equipment was delayed as suppliers also incurred damage from hurricanes. What we are struggling with now is that it will take more time for the start-up since the industrial gas needed is insufficient. Our difficulty is not caused by a lack of engineering ability but rather by external factors.

	<ul style="list-style-type: none"> • The Company does not employ Engineering Procurement & Construction (EPC) or general contractors to carry out the construction work. We are the owner and manage EPC. We faced difficulties in securing workers, such as welders and workers to connect pipes, but have managed to move forward. I don't think we need to consider the rate-controlling of engineering and construction capabilities for the time being. • We are currently conducting research on the supply and demand of shale in the U.S. as well as of the associated natural gas and petrochemical raw materials. Based on this research, we will proceed with the next investment.
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<Electronics Materials>

Q	Please describe the current wafer conditions and short-term outlook on demand.
A	<ul style="list-style-type: none"> • (Trends in the industry) Shipments of 300 mm, 200 mm, and 150 mm or less are all increasing on a YoY basis. Although shipments are increasing also on a QoQ basis, the growth rate is low. We estimate that almost all wafer manufacturers are operating at full capacity. • Demand for wafers has been strong recently, driven by robust demand for semiconductors. However, we believe that changes in demand may occur in the future, depending on the customers' approach to holding inventory in terms of the number of months and the volume of inventory.
Q	What about the capacity expansion for 300 mm wafers?
A	<ul style="list-style-type: none"> • Our basic policy for 300 mm capacity expansion has not changed. We negotiate contracts with each customer and increase capacity only to the extent necessary. If there is time until the contract expires, we will negotiate in the future. • The main feature of this contract negotiation was the active inquiries we received from logic manufacturers. Hence, our negotiations were mainly for epitaxial wafers. • In the past, the contract period with logic manufacturers was relatively short, but in the recent negotiations, manufacturers are looking to have a long-term contract. I feel this is because the logic field is expected to expand in various applications. • The Company operates multiple bases around the world for crystallization,

	<p>processing, epitaxial and other processes. The actual situation is that the expansion is being carried out at each base in parallel making various creative efforts. Some investments include the building, and pieces of equipment are carried in one after another according to the contract.</p> <ul style="list-style-type: none"> • Delivery dates for production equipment have been extended considerably, and we expect that it won't be until 2024 or thereafter that capacity expansion will make a full contribution.
Q	What is the status of 200 mm wafers?
A	<ul style="list-style-type: none"> • We believe that 200 mm wafers are experiencing biggest shortages. In addition to the large number of customers and product types, there is a wide range of applications, including automotive applications, and the resumption of economic activities in each country has resulted in additional demand for inventory accumulation. • There has been no major change in the shipment volume of 200 mm wafers since March of this year. We expect that wafer manufacturers will continue to operate at full capacity. • We will continue to renew old equipment, increase productivity and yield, and work steadily to increase production as much as possible.
Q	What contributed to higher profit in the Electronics & Functional Materials segment?
A	<ul style="list-style-type: none"> • Wafers contributed significantly to a QoQ increase of profit.
Q	How about EUV photoresists?
A	<ul style="list-style-type: none"> • The Company's share in the EUV photoresist market is extremely high and continues to be favorable. • We are in the process of developing metal oxide resists.

<Functional Materials>

Q	Please describe the price increases of silicone.
A	<ul style="list-style-type: none"> • After the price increase announced in August, we have been making additional price increases. We have announced significant price increases both in Japan and overseas and have actually implemented them. With the continuing price hikes in raw materials, such as metallic silicon and methanol, we are working to pass on these costs to prices without delay. We

	will make sure to secure the required quantity of metallic silicon.
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<Company-wide>

Q	About responses to new products (anode material for lithium ion batteries, micro LED, EUV mask blanks)
A	<ul style="list-style-type: none">• We are working to make sure these new products will contribute to our profits in the next term, although I cannot say to what extent.
Q	Events requiring attention in the future.
A	<ul style="list-style-type: none">• There is no end if we worry, but there are matters that require attention, such as the hike in raw material prices. We will do the very obvious things properly one by one and make sure to generate a profit.