

## Shin-Etsu Chemical Co., Ltd.

### Summary of Telephone Conference on Financial Results for the Third Quarter Ended December 31, 2021

<b>Date</b>	January 27, 2022 16:00–17:00
<b>Venue</b>	Shin-Etsu Chemical Co., Ltd.
<b>Attendees from the Company</b>	<ul style="list-style-type: none"><li>• Yasuhiko Saitoh, Representative Director – President</li><li>• Masahiko Todoroki, Senior Managing Director, In Charge of Semiconductor Silicon Business</li><li>• Toshiya Akimoto, Managing Corporate Officer, In Charge of Public Relations</li><li>• Toshiyuki Kasahara, Corporate Officer, General Manager of Finance &amp; Accounting Department</li><li>• Yukihiro Adachi, General Manager of Public Relations Department</li></ul>
<b>Reference material</b>	<a href="#">Consolidated Financial Results for the Third Quarter Ended December 31, 2021</a>

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

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

- In the first three quarters ended December 31, 2021 (April to December), the Company posted the following results:  
Consolidated net sales of ¥1,483.7 billion (up 36% year on year),  
Operating income of ¥480.1 billion (up 68% year on year),  
Ordinary income of ¥490.3 billion (up 67% year on year), and  
Net income attributable to owners of parent of ¥353.1 billion (up 66% 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 Infrastructure Materials business contributed to profit growth, and the 3.3-fold increase in profits was largely attributable to Shintech. Behind this was the remarkable strength of demand.

#### [Status by segment]

- [Infrastructure Materials]:  
The housing shortage in the U.S. has been severe. Demand for housing remains strong and supply is likely to be subdued. The Federal Home Loan Mortgage Corporation estimates the housing shortage at about 3.8 million units, with another estimate of as much as 5.5 million units. A similar situation is more or

less evident in other major countries.

Meanwhile, looking at the situation in China which impacts the Asian market's conditions, the recent policy of the Chinese government seems to have a restraining influence in terms of both supply and demand. As a result, there is no imbalance between supply and demand. Crude oil prices continue to be high, and coal prices are rising again. PVC prices hit the bottom after the recent fall. Caustic soda has reversed.

- [Electronics Materials]:

The device shortage has not been resolved. An underlying factor is the full-scale development of the IoT, IoH, AR, VR, Metaverse and such like, i.e., the process of "making the world ubiquitous." These are followed by demand for semiconductors as essential products for realizing carbon neutrality and double-tracking the semiconductor supply chain for economic security. A similar vector applies to rare earth magnets. The plan for promoting EVs has been moved up, and electrification will be accelerated not only for cars but also for other applications. From the viewpoint of economic security, studies on local production for local consumption are underway in the EU and the U.S.

- [Functional Materials]:

We have been able to raise prices for silicone products in stages and are continuing to pursue raises. At the same time, we will increase the number of new products and further tilt the product mix toward specialties. The Company is also working hard to raise prices of cellulose products.

- Given the above circumstances, we will steadily implement investments in all areas.

[Full-year operating performance]

- The Company made upward revisions to its full-year operating performance forecast, taking into account the results for the first nine months and the January-March outlook. By posting higher profits for eight consecutive quarters from the January-March quarter of 2020 to the January-March quarter of 2022, we will strive to achieve the highest annual profit projected. The annual dividend forecast was also revised upward to be ¥400 per share, an increase of ¥100. Efforts are also underway for the next fiscal year.

## [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 the level of depreciation and amortization is expected to be ¥160 billion (no change).
- Assumed foreign exchange rates for operating forecasts: US\$1 = ¥114 and €1 = ¥130 for the January-March quarter.
- Foreign exchange sensitivity of ordinary income: ¥4.9 billion per year for the U.S. dollar and ¥0.3 billion yen per year for the euro, at a fluctuation of ¥1.

## [Q&A Session]

### <Infrastructure Materials>

Q	What is your outlook for PVC in 2022?
A	<ul style="list-style-type: none"><li>• We are of the view that the market price decline seen in Asia has bottomed out.</li><li>• (North America) A company proposed its PVC price increase by 3 cents in February, but so far no other company has followed that approach. However, it was reported this morning that there was a tank explosion at a competitor. Although we have not been able to obtain details of the level of the accident, if the start-up of the operation at the factory where the accident occurred is delayed, there might be a supply constraint like that of last year. We are paying close attention to the status.</li><li>• Demand continues to be strong. There was a situation in December and January where customers had no choice but to adjust production due to the temporary spread of infection that caused difficulty in human resource management. However, this situation will gradually be resolved and normalized, and there will be moves to stock up toward the beginning of spring. Hence, we are not worried about demand. Comparing prices in Asia with prices in North America, there are notable differences. But looking at the supply-demand relationship in North America, we are of the view that prices will not enter a correction phase for some time.</li><li>• Demand is strong, but supply conditions have eased from last year. There are factors, such as the extent to which the strength of demand will continue, the tightening of monetary policy, and the progress of inflation,</li></ul>

	<p>but it is unlikely that price adjustments will occur suddenly.</p> <ul style="list-style-type: none"> <li>• In North America, we are starting the year with a significantly higher price than the level of last year, and the new plant that began operation in December last year will contribute fully (approximately 400,000 tons) this year. We are confident we can sell everything.</li> </ul>
Q	What is the status of Shintech's new plant?
A	<ul style="list-style-type: none"> <li>• The capacity of PVC production at the new plant is 290,000 tons/year, but the capacity of VCM is larger. There has been a shortage of monomers so far, but since we will be able to apply the new VCM capacity fully to PVC, the volume will increase by approximately 400,000 tons.</li> </ul>
Q	Please describe the conditions for caustic soda.
A	<p>[Market prices]</p> <ul style="list-style-type: none"> <li>• The North American market is on an upward trend. There is strong demand, and there was an increase in Shintech's capacity. But there was also capacity that was closed or will be shut down (in the industry), and deducting this amount shows there is no increase in supply capacity. Therefore, the supply-demand relationship is good.</li> <li>• As the disruption of marine transportation continues, it is still difficult for Asian market conditions to be brought into North America as they were in the past, and we expect this situation to continue going forward.</li> </ul> <p>[Demand]</p> <ul style="list-style-type: none"> <li>• With the review of the supply chain, it is quite possible that minor metals (such as lithium) will be produced in large numbers in the U.S., and we are hopeful. Whether or not caustic soda will be in short supply depends on how well the capacity of minor metals will be established in the U.S., so we are closely watching.</li> </ul>

### <Electronics Materials>

Q	What is your outlook for wafers in 2022?
A	<ul style="list-style-type: none"> <li>• There are three points. The first is the macro environment trend, including geopolitical factors. The semiconductor industry is directly linked to the economy, but it is not yet clear whether it will continue to do well or if there will be any problems.</li> <li>• The second point is customers' inventory policy. Amid the shortage of</li> </ul>

	<p>semiconductors, inventory accumulation is pursued in various parts of the supply chain, and the key is when the target inventory level will be reached. The timing of reaching the target will vary depending on the diameter of the wafer, but we do not expect device manufacturers to draw down the accumulated inventory due to economic fluctuations. We expect that the inventory level will be built up to a higher level from the current standard level, and once a certain number of months in stock is reached, that level will likely be maintained.</p> <ul style="list-style-type: none"> <li>• The third point is that there will be a lot of new demand for devices in 2022. In addition to high-speed communications, EVs, and green investment, we expect this year to be one when new investment for the future Metaverse begins.</li> </ul>
Q	What is your view on capital investment in 300 mm wafers?
A	<ul style="list-style-type: none"> <li>• We have not changed our policy at all to gradually increase capacity based on contracts.</li> <li>• Currently, the Company continues to operate at full capacity, but we are unable to completely meet demand. In 2022 and 2023, brownfield investments will be limited while greenfield investments will contribute only from 2024 or thereafter. Therefore, the shortage of 300 mm wafers is expected to continue for some time.</li> <li>• The prices of construction materials, manufacturing/inspection equipment and materials, and raw materials are rising, and the amount of investment per unit is considerably higher than when we considered investment a year ago.</li> <li>• It is difficult to significantly increase production capacity in the short term, because many types of wafer manufacturing equipment are unique to each company and the manufacturing capacity of equipment manufacturers is also limited.</li> </ul>
Q	How about the prices in 2022 and beyond?
A	<ul style="list-style-type: none"> <li>• In 2022, there are cases where we agreed to a volume increase in conjunction with the price increase in addition to the contracts already concluded.</li> <li>• In 2023, the ratio of long-term contracts concluded in the past will be lower than the level of 2022, and the price will increase in proportion to the volume increase. From 2024 onwards, we expect price increases to step up further as the capacity is enhanced with the launch of new lines.</li> </ul>

Q	Please describe the status of epitaxial wafers (EPW).
A	<ul style="list-style-type: none"> <li>• At present, while the composition ratio of EPW is gradually increasing, the trend of memory devices will be the focal point in the future. Now that we have received requests from memory manufacturers to increase the volume this year, there is an impression that the business is beginning to pick up speed a little bit. Therefore, although the EPW ratio will likely go up a little, we do not believe that it will go up unilaterally.</li> </ul>
Q	What is the status of SiC wafers?
A	<ul style="list-style-type: none"> <li>• It is not clear to what extent SiC will increase its composition ratio against Si wafers, but demand is expected to gradually increase mainly for high-power applications. On the other hand, there are still issues in terms of supply capacity and quality.</li> <li>• The Company has been conducting research and development on SiC for a long time, and some customers have highly rated our products. We are seriously considering mass production in the future.</li> </ul>
Q	How about photoresists and EUV mask blanks?
A	<ul style="list-style-type: none"> <li>• Demand for photoresists is so strong that even if a new plant (Naoetsu, Japan), which will soon be completed, is put into operation, it will not be enough to fully meet the demand. We set up a prototype line as a prelude to this new plant and have been utilizing it also to meet the demand.</li> <li>• We began preparation to build a mass production system for EUV mask blanks. Although not many customers use EUV mask blanks, we have pursued development in response to the strong requests of our customers and have finally reached where we are today. Specific dates will be announced separately.</li> </ul>

### <Functional Materials>

Q	Please describe the price increases of silicone, performance in the third quarter (October-December quarter), and your outlook for the fourth quarter (January-March quarter).
A	<ul style="list-style-type: none"> <li>• The price of metallic silicon, one of the raw materials, soared considerably at one time. Even the current price, which has dropped since then, is historically high. There is a tendency to settle down at this price level, so we will maintain the raised price. Also, since there is a lag in the timing of price</li> </ul>

	<p>increases depending on the product, we are also raising the prices of products for which the process has been delayed.</p> <ul style="list-style-type: none"> <li>• In terms of the silicone field as a whole, we are shifting to higher-value-added products known as specialties in addition to passing on prices. Looking at it comprehensively while noting these differences in composition, we expect overall profits to recover in the January-March quarter, although profits slightly declined from the July-September quarter to the October-December quarter.</li> </ul>
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<Company-wide>

Q	What is your outlook for the fourth quarter (January–March quarter)?
A	<ul style="list-style-type: none"> <li>• There was no change in the trend from the July-September quarter to the October-December quarter, and the strength of the Infrastructure Materials business is reflected in the projected earnings for the January-March quarter.</li> </ul>
Q	What is your policy on return to shareholders and cash on hand?
A	<ul style="list-style-type: none"> <li>• There is no change to our basic dividend policy of distributing stable dividends over the long term. Some may feel that the size of the dividend increase we have made this time is large, however, please note that the Company is not making the judgment for one fiscal year but is determining the dividend figure based on the policy of distributing dividends stably over a long period of time. The Company makes efforts in recognition that returning profits to shareholders is a management issue and decides the dividend increase with the notion that it must properly demonstrate its commitment.</li> <li>• A share buyback is a form of shareholders' returns and is considered as a means of capital strategy to improve ROE and ROIC, especially ROE.</li> <li>• Cash on hand is positioned as a source of investment to expand our business in the future. We also look at the level of cash on hand, in consideration that we must be a company that can withstand shocks and will never fail, and this in turn will lead to returns to shareholders.</li> </ul>