

## Shin-Etsu Chemical Co., Ltd.

### Summary of Telephone Conference on Financial Results for the Fiscal Year Ended March 31, 2022

<b>Date</b>	April 27, 2022 16:30–17:30
<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>• Shinji Fukui, General Manager of Public Relations Department</li></ul>
<b>Reference material</b>	<a href="#">Consolidated Financial Results for the Fiscal Year Ended March 31, 2022</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 fiscal year ended March 31, 2022, the Company posted the following results:  
Consolidated net sales of ¥2,074.4 billion (up 39% year on year),  
operating income of ¥676.3 billion (up 72% year on year),  
ordinary income of ¥694.4 billion (up 71% year on year), and  
net income attributable to owners of parent of ¥500.1 billion (up 70% year on year).
- In the fourth quarter (January–March quarter) ended March 31, 2022, the Company posted the following results:  
Consolidated net sales of ¥590.7 billion (up 45% year on year),  
operating income of ¥196.2 billion (up 83% year on year),  
ordinary income of ¥204.1 billion (up 82% year on year), and  
net income attributable to owners of parent of ¥146.9 billion (up 83% year on year).
- Sales and profit increased in all business segments. In the six years leading up to the fiscal year ended March 31, 2022, earnings grew at an average annual rate of 21%. ROIC recovered to the 20% level and ROE also exceeded the target level.

#### [Status by segment]

- [Infrastructure Materials]:

The U.S. housing market remains strong, as evidenced by the numbers of housing starts and permits last month. Given the rising interest rates and housing prices, some point out that housing demand will likely peak out. In fact, the prevailing view in the industry is that it would be better if demand did not reach the level seen in 2006, with the desirable number of housing starts being around 1.4 million to 1.5 million houses. A housing shortage still continues and housing construction has remained subdued to date. We expect housing investment to continue. Despite stunning wage increases in the U.S. while the FRB pursues initiatives to contain inflation, the country's economy appears to be relatively sustainable. The U.S. market accounts for about 60% of the sales of this segment.

In Asia, some view that the so-called zero-COVID policy that China continues to take is expected to affect market conditions. I think this is true macro-economically, but the impact on PVC will likely be limited. Production of ethylene-based PVC dropped due to the high crude oil prices. Exports from China have stagnated due to the lockdown measures taken in cities.

Caustic soda has been strong, and prices are rising.

- [Electronics Materials]:

When I met with major customers in the semiconductor device industry the other day, there was a unanimous view that generally speaking, everything was short in supply. (This is just in general terms. It is not the Company's problem.) Demand for semiconductor materials has not declined, and while we may receive requests for additional materials, there has been no talk of a downward revision to demand or reduction in volume. The same applies to rare earth magnets. The sales of this segment are roughly equally generated in three areas: Japan, the Asian region other than Japan and China, and the rest of the world. We expect that sales distribution will become even better as an economic security-driven market develops going forward.

- [Functional Materials]:

Full operations and full sales continue also in this segment. Performance improved evenly both geographically and by application. We have also launched many new products on the market. To promote and expand those products, the Company will invest ¥80 billion in the Silicones Business.

- [Processing, Trading & Specialized Services]:

The Company will work to further enhance synergies within the Group.

- Under these circumstances, we will steadily pursue investments in all areas.

[Return to shareholders and full-year operating forecasts]

- The annual dividend will be ¥400 per share as previously announced. In the past six years, dividends grew at an average annual rate of 24%. In addition, the Company will conduct a share buyback worth ¥100 billion. These are the direct results of our performance, backed by our solid financial position, and a sign of our intention to reward our shareholders.
- The Company has decided not to forecast business performance for the fiscal year ending March 2023 due to the difficulty in reasonably predicting the full-year forecast at this point. We will promptly release the forecast as soon as it is ready for disclosure.

[Supplementary explanation (Shinji Fukui, General Manager of Public Relations Department)]

- Capital investment in the fiscal year ending March 31, 2023 is estimated to be approximately ¥270 billion, and the level of depreciation and amortization is expected to be approximately ¥206 billion.
- 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	Please describe the status of Shintech in the January–March quarter and the Company’s view on demand and supply of PVC in the U.S.
A	(Status of Shintech in the January–March quarter) • Preventive maintenance was scheduled in the October–December quarter last year, but it was conducted in the January–March quarter this year. Some works will be performed in April, but most of the works were completed in the January–March quarter. Despite the preventive maintenance conducted, operating performance for the January–March quarter exceeded that of the October–December quarter. Price increases in North America were 1 cent in March and 3 cents in April. (View on demand and supply)

	<ul style="list-style-type: none"> <li>• From a macro perspective, housing demand remains strong. We view that a rise in mortgage costs might suppress demand slightly, but the rise in housing prices is a greater concern. A rise in interest rates would if anything suppress the rise in housing prices, and housing prices would fall. Also, in the housing market, it is necessary to separate the buying and selling of existing houses and new houses. According to a recent report, the number of housing starts is about 2 million, but there is a view that the shortage is, if anything, increasing. Millennials are moving into single-family homes. In addition, house builders have been constructing rather sparingly. A leading housing construction company released its financial results this morning, and they reflect a bullish trend. Given these circumstances, our direct customers are also continuing to pursue production at full capacity. Operation at full capacity continues despite supply constraints such as labor shortages and shortages of auxiliary materials.</li> </ul>
Q	How will the Company respond if the housing demand in the U.S. slows?
A	<ul style="list-style-type: none"> <li>• We have weathered the ups and downs of the PVC market many times and are confident of full production and our ability to sell all the products made. On top of that, infrastructure investment is proceeding under the support of the current administration. The relevant budgeting has been done, and the finances of the central and state governments are quite plentiful. In the U.S., the moves of the federal government and those of the state government are added as positive factors. We are gradually seeing the establishment of this infrastructure and the development of future housing sites. PVC is also used for various applications in the automotive field, and this is a positive factor as well even though automobile production is facing difficulties at the moment.</li> </ul>
Q	Please describe the background to the low level of investment in the U.S. PVC industry.
A	<ul style="list-style-type: none"> <li>• I don't know what competitors think, but as I mentioned before, environmental regulations are becoming stricter in the U.S. It is quite difficult to build a plant on a completely new site. This means that an additional facility is built at an existing plant, and this would require a considerable investment to put in place a complete line from upstream to downstream. It means that we must secure a reasonable return. Given the current level, I think the hurdle rate can be exceeded. So I'm interested in finding out how other players in the industry view the situation at the</li> </ul>

	moment. I don't know if competitors in the industry are keeping their investments low in light of so-called carbon neutrality, or if they are focusing more on downstream (processing) than PVC resin.
Q	What is the trend in capital investment in the petrochemical industry?
A	<ul style="list-style-type: none"> <li>• We will refrain from commenting on capital investment in the petrochemical industry as a whole, but natural gas liquids (NGLs), such as natural gas and ethane, are still abundant, including reserves. Even when natural gas prices are going up and crude oil prices might further rise to over \$100, U.S. petrochemical companies remain competitive. The construction of chemical plants in the U.S. has settled down, but there are potential large projects as well as projects moving toward finalization, so investment projects will likely become apparent going forward. However, I don't think we will be seeing a construction boom like before.</li> </ul>

### <Electronics Materials>

Q	Please compare the operating results for the third and fourth quarters.
A	<ul style="list-style-type: none"> <li>• The increase in sales was due to higher sales volumes and higher prices plus foreign exchange factors.</li> <li>• The decrease in profit was mainly due to an increase in fixed expenses such as depreciation.</li> </ul>
Q	What is the current demand for silicon wafers?
A	<ul style="list-style-type: none"> <li>• There are slight signs of differences in end-user demand. Demand for semiconductors for consumer applications is weakening mainly in China for smartphones and PCs and in Europe. On the other hand, demand for applications related to data centers, electric vehicles (EVs), and environmental investment remain strong. We also believe that investments related to the metaverse, etc. are beginning to be made for the future.</li> </ul>
Q	What are your projections for silicon wafer volume and prices in the fiscal year ending March 2023?
A	<ul style="list-style-type: none"> <li>• For 300 mm wafers, we are continuing to operate at full capacity. In terms of expansion, any growth in volume will likely be limited since only brownfield investment will contribute in 2022 and 2023. The capacity increase of 200 mm wafers is also limited to the increase achieved through</li> </ul>

	<p>enhancing the productivity of existing facilities and improving process bottlenecks.</p> <ul style="list-style-type: none"> <li>• As for prices, even for products with a long-term agreement (LTA) price, the additional portion under the brownfield investment will lead to price increases. At the same time, we will also discuss price adjustments with our customers for the rising energy, raw material, and transportation costs.</li> </ul>
Q	What is the inventory status of customers for silicon wafers?
A	<ul style="list-style-type: none"> <li>• Amid strong demand, there is an ongoing trend for wafer inventories not to be built up. We do not expect our customers' wafer inventories to reach the target level before the end of this year, except for the inventories for a few smaller types with a diameter of 6 inches or less.</li> </ul>
Q	What is your outlook on supply and demand for 300 mm wafers from 2024 onwards?
A	<ul style="list-style-type: none"> <li>• It is not possible at this point to predict exactly what the market will look like in 2024 or 2025, when the expansion of wafer manufacturers will contribute, but I perceive that both logic and memory markets will remain very strong.</li> <li>• With regard to wafers for logic ICs, negotiations on LTA have almost come to an end. We have just been contacted regarding a further increase in volume. The increase in volume in 2024 and 2025 will be based on greenfield investment, and it may be difficult to do so due to the issue with the construction period.</li> <li>• As for wafers for memory ICs, LTA negotiations have become active this year, and we are requested to enter into a long-term agreement of up to 2027 or 2028. With regard to capacity expansion, since production equipment manufacturers are limited, we expect the scale of expansion that can be achieved in a year will be limited.</li> <li>• The expanded portion will be added to the existing LTA price.</li> <li>• In order to use greenfield investment to construct the main building, install equipment, and get user certification, we need to look three years into the future. For example, even if a decision to expand capacity is made in the latter half of 2022, the increase will be from the latter half of 2025 or from 2026. We are examining the details of the necessary investment individually with each customer.</li> </ul>
Q	What is the potential capacity expansion for 200 mm wafers?

A	<ul style="list-style-type: none"> <li>• The price increase for 200 mm wafers was due to the rise in energy, raw material and transportation costs. Currently, the price of 200 mm wafers is not at a level that allows reinvestment. Projections have been announced saying that the capacity of the world's device manufacturers will increase 1.2 million wafers/month from 2020 to 6.9 million wafers/month by the end of 2024, but we estimate the capacity of existing major silicon manufacturers to be around 6 million wafers/month.</li> <li>• Production equipment for 200 mm wafers is out of stock on the used market. New capacity expansion for 200 mm wafers requires a level of capital investment that is not much different from that for 300 mm wafers.</li> </ul>
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### <Functional Materials>

Q	Please describe the background to profit growth in the fourth quarter.
A	<ul style="list-style-type: none"> <li>• Profit growth is attributable to silicone. The main product in this segment is silicone, and demand is extremely strong. In addition, the rise in prices of main raw materials for silicone was very severe last year. We have steadily implemented a price policy to cope with the rise, and it contributed to the results.</li> <li>• The current situation is that silicone products are growing evenly in all applications and regions.</li> </ul>

### <Company-wide>

Q	How about your outlook on capital investments for the year ending March 2023 and beyond?
A	<ul style="list-style-type: none"> <li>• Capital investment for the year ending March 2023 will increase in all segments. The largest increase will be in the electronic materials area.</li> <li>• In terms of future trends, capital investment will increase. We will continue to invest in Shintech. Investment in silicon wafers will also continue as we carry on working to fulfill our promises to customers. In addition, we will proceed with the investment of ¥80 billion in silicone announced in February. Hence capital investments will increase.</li> </ul>
Q	What is the impact of surging energy prices in the European markets?

A

• In March, the spread narrowed due to a sharp rise in energy prices, but it has returned to the level of February. With the arrival of spring, energy prices have returned a little, so I think we are in a state of lull. However, it is uncertain what will happen, given today's news reports, for example, whether Russia will stop supplying natural gas to Poland and Bulgaria. Under such circumstances, the Company's European operations are currently functioning as usual, and we are properly raising prices for each product. So I am not worried at this point. However, we are definitely being kept on our toes as to how Russia will move and how Western countries will respond.