

Shin-Etsu Chemical Co., Ltd.	
Summary of Telephone Conference on Financial Results for the First Half Ended September 30, 2022	
Date	October 27, 2022, 16:30–17:30
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 • Shinji Fukui, General Manager of Public Relations Department
Reference material	Consolidated Financial Results for the First Half Ended September 30, 2022

* 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 half ended September 30, 2022, the Company posted the following results:
Consolidated net sales of ¥1,409.3 billion (up 50% year on year),
operating income of ¥536.2 billion (up 80% year on year),
ordinary income of ¥559.0 billion (up 84% year on year), and
net income attributable to owners of parent of ¥392.3 billion (up 78% year on year)
- Profits increased in the July–September period for the 10th consecutive quarter.

[Status by segment]

- **[Infrastructure Materials]:**
In North America, the effects of monetary tightening are first and foremost evident in the housing market. However, housing starts, which influence the demand for PVC, remained at the level of more than 1.4 million units in September. In addition, inventory adjustments for resin have been coming full circle. For PVC, while the trends in the market for second-hand housing, which accounts for 90% of the market, are also important, the trend of new housing is a major matter of interest. As we have been pointing out for a long time, the housing shortage still continues. In fact, the inventory of houses has not increased. Most recently, there

were about 1.3 million units (incidentally, there were 4 million units in 2006 immediately following the burst of the housing bubble). The reason why the number of housing starts remains at 1.4 million is that there are still not enough houses. We believe there is still room for lowering housing prices to stimulate demand.

The situation in China holds the key to the Asian market price, but the price already appears to be at the bottom.

Demand for caustic soda is generally stable in both North America and Asia.

- [Electronics Materials]:

In the area of semiconductor front-end process materials, customer purchases so far have generally been in line with contracts.

As for rare earth magnets, although inventory adjustments are taking place for HDD, demand is growing in other markets. All of our customers are confident that electronization and electrification, high-performance computing (HPC), and green transformation (GX) will continue, and are making investments. We are increasing capacity while separating short-term adjustments and basic demand.

- [Functional Materials]:

The market for general-purpose products tends to be influenced by trends in China, but demand for advanced functional products and specialty products, which is where our strength lies, is firm, and the ratio of such products is steadily increasing. We will continue to strengthen our supply system.

- [Processing, & Specialized Services]:

Demand for semiconductor wafer cases, including wafer cases used in the device manufacturing process, has not changed so far.

[Full-year earnings forecast]

- Based on the results for the July–September quarter, the Company revised upwards to its full-year earnings forecast. The Company expects consolidated net sales of ¥2.7 trillion and ordinary income of ¥980 billion. Economic conditions are changing significantly. We will make steady efforts to further expand our business while swiftly taking short-term measures.

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

- Capital investment in the fiscal year ending March 31, 2023, is estimated to be worth approximately ¥300 billion, and the level of depreciation and amortization is expected to be ¥215 billion.
- Foreign exchange sensitivity of ordinary income: ¥5.8 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 trends in the PVC market and the outlook for the next fiscal year's earnings.
A	<ul style="list-style-type: none">• While the Asian PVC price moves rather roughly, the price in the U.S. and Europe move more moderately than that in Asia. We will see that customers understand this difference in the nature of the market.• While there are several views on the future market conditions in general, market conditions, particularly in Asia, have fallen considerably, and there is a sense of bottoming out. We will continue to monitor developments in China among other factors and make full use of our cost competitiveness to earn profits. This is the approach we have taken many times in the midst of market fluctuations, and we will do our best in accordance with market movements.
Q	How do you view PVC and caustic soda market conditions?
A	<ul style="list-style-type: none">• The supply and demand of caustic soda is relatively stable, and because of this, there is no choice but to make PVC for caustic soda. This trend is depressing the PVC price in part.• The PVC market is large, and the situation differs from region to region. We respond to these differences and find it important to fully utilize our capacity. We will also make good use of the situation with raw materials.• Currently in the U.S., we are in the process of annual contract negotiations for PVC. In this process, we are pursuing negotiations, keeping in mind that there may still be some adjustments.

Q	What was the status of Shintech in the third quarter (July–September quarter)?
A	<ul style="list-style-type: none"> • Shintech was in full operation during the July–September quarter. The export ratio is also increasing. • As for raw materials, ethane prices have recently been coming down. We have in-house ethylene and also procure ethylene, but ethylene prices have also dropped considerably, and this will contribute to the October–December quarter. • (Profit level for the July–September quarter) Although it is lower than the April–June quarter, profit is higher than the level of the same period in the previous year.
Q	What are the risks of Asian PVC being exported to the U.S.?
A	<ul style="list-style-type: none"> • One point is that the U.S. imposes punitive tariffs on Chinese PVC, which acts as a bulwark. Also, although the transport prices have come down, they are still higher than before. In addition, customers in the U.S. do not receive products in bags because delivery is made in the form of freight trains. That is the form of the logistics system in place. Because of such restrictions, the U.S. market has not been affected by imports, and we believe that it will also not be affected in the future.

<Electronics Materials>

Q	Please describe the trends in semiconductor wafers by diameter in the July–September quarter.
A	<ul style="list-style-type: none"> • The 300 mm and 200 mm wafer markets also remained strong during the July–September quarter. Small-size wafers with a diameter of 150 mm or less are on a declining trend.
Q	What is the current status of the semiconductor wafer market?
A	<ul style="list-style-type: none"> • In the device market, adjustments are becoming generally more evident in almost all areas, including PC, smartphone, consumer, and industrial sectors, which represent the major users. Demand for data center applications is also showing signs of a pause. In the wafer market, shipments continue to be steady in general. There is a possibility that the first half of next year will be an adjustment phase, but in that case, we

	<p>may discuss our response, including adjusting the delivery dates while maintaining the contracted quantity and covering the price without changing the value of the contract, with our customers.</p>
Q	<p>What is the difference between the past adjustment phase and the present situation concerning semiconductor wafers?</p>
A	<ul style="list-style-type: none"> As the adjustment trend is becoming more evident in the semiconductor device market, new fields of application such as DX, GX, and electric vehicles continue to be steady, and applications of semiconductor are expanding. Unlike the past adjustment phase, device manufacturers talk to us mainly about the long-term issue of supplying materials to increase production in the future, rather than about short-term needs.
Q	<p>What is the status of long-term contracts for semiconductor wafers?</p>
A	<ul style="list-style-type: none"> We have long-term contracts for 300 mm wafers through 2027 for the most part.
Q	<p>Please tell us about investments for semiconductor wafers.</p>
A	<ul style="list-style-type: none"> The production capacity of semiconductor wafer manufacturing equipment is limited, and the delivery time of equipment is generally long. Regardless of whether there are short-term adjustments or not, we will steadily promote capital investment based on long-term contracts. Regarding investment amounts, when investing purchases from overseas manufacturers, such as those related to inspection equipment, in Japan, we are impacted by foreign exchange rates. However, the investments we arrange in Japan are based on long-term contracts, and there is no significant impact.
Q	<p>What are the differences in market trends for semiconductor devices vs. semiconductor wafers?</p>
A	<ul style="list-style-type: none"> Due to factors such as short-term device production adjustments, the buildup of wafer inventories by semiconductor device manufacturers, and the outlook for post-adjustment demand, there is a possibility that device shipment volumes and wafer shipment volumes will show slightly different moves.
Q	<p>Are there differences in demand for semiconductor wafers vs. photoresists?</p>
A	<ul style="list-style-type: none"> So far, they are moving in the same direction, i.e., the vectors are perfectly aligned so to speak. There are various combinations for photoresists depending on nodes and

layers. It may look different from one area to another depending on whether the Company has strengths in that area, but so far the movements are heading in the same direction.

<Functional Materials>

Q	What is the status of the silicones business?
A	<ul style="list-style-type: none"> Although general-purpose products are weak, we are maintaining a certain level of volume. At the same time, we are launching a large number of functional products, which we are good at, and high value-added products that are customized for each customer. There are also many products that have not been announced. At any rate, we are supporting and growing this business by offering a wide range of products and launching new ones.
Q	What is the status of the cellulose business?
A	<ul style="list-style-type: none"> While there is no doubt that construction materials are particularly weak in Europe, there is extremely stable demand for eco-friendly honeycomb ceramics, which are used in gasoline-powered vehicles, as well as pharmaceutical and food, where we demonstrate strengths. We will further promote growth in these areas.
Q	Please tell us about anode materials for lithium-ion batteries.
A	<ul style="list-style-type: none"> It has been a while since we last spoke about anode materials. The Company is now ready to start mass production. This may not necessarily be a new business, but we have now entered a new phase.

<Company-wide>

Q	Please tell us about the upward revisions to the earnings forecast.
A	<ul style="list-style-type: none"> The forecast we announced in July was conservative to be honest. Based on the first-half results, particularly of the second quarter (July–September), and considering the figures that we expect with some degree of certainty for the third quarter (October–December), we revised upwards adjustments to the forecast.

	<ul style="list-style-type: none"> When subtracting the first-half results from the full-year earnings forecast, a considerable part of the delta portion is PVC.
Q	What measures will be taken in phases of economic deterioration and slowdown?
A	<ul style="list-style-type: none"> In the past, the Company performed better than competitors in the same business in such phases. Even in good economic times, our profit margins, as you can see, were better than those of theirs in the same business. The Company has had a good track record to date. First of all, we stand on such a foundation. In addition, we will flexibly take measures to prevent or avoid a downturn in our performance depending on the situation. Of course, we assumed that this kind of thing could come about, and hence in semiconductor silicon for instance, we have built good relationships with customers by properly concluding contracts. On top of that, we work together in overcoming difficult phases. The customers' trust we have gained through our past achievements will work to our advantage in such difficult times. There are several approaches, and the various combination of measures will help us beat the wave of challenges.
Q	What are your views on share buybacks and cash on hand?
A	<ul style="list-style-type: none"> A share buyback is one of the ways to return profits to shareholders in a broad sense, and we will consider flexibly implementing share buybacks as part of our capital policy. It is not necessarily based on the level of stock prices. The question of how to utilize cash on hand is one that is repeatedly asked, and we recognize that we must answer this question properly. First of all, we will use cash on hand for making investments to expand our business. At the same time, we will flexibly pursue share buybacks while taking into account ROE and other factors. Just because we did not announce a share buyback this time does not mean we changed our policy.
Q	What regions do you plan to focus on in the medium to long term?
A	<p>There are two perspectives on region. One is the perspective based on the supply system. First, we think about which region to focus on in order to maintain and further increase our cost competitiveness. Then we consider how to establish our operating bases when it is necessary to have multiple bases to secure a stable supply. From this perspective, we have established production bases and will continue to do so. The second</p>

	<p>perspective is the market perspective which I think is the point of your question. The Company does not look at a market in terms of “which region and which country” but rather in terms of where customers are located i.e., where demand is. Our approach is strictly customer-oriented, demand-oriented.</p>
Q	<p>What is your approach to achieving consolidated operating income of ¥1 trillion?</p>
A	<ul style="list-style-type: none"> • Fortunately, all of the Company’s businesses will continue to grow steadily going forward. We will take steps to ensure so. • In the area of PVC, although we are currently in a major adjustment phase, demand will continue to grow in the future, while supply will not grow as much. We are now further increasing our capacity. As for silicon wafers, customers are actively investing in their businesses for the long term, and we will respond appropriately to this trend. We will take such steps in all of our businesses. In addition, we are making great efforts in our new businesses to make them flourish. We will aim to reach and exceed the target of ¥1 trillion by combining these efforts and demonstrating comprehensive strength.