

Shin-Etsu Chemical Co., Ltd.	
Summary of Telephone Conference on Financial Results for the First Quarter Ended June 30, 2023	
Date	July 27, 2023 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 • Shinji Fukui, General Manager of Public Relations Department
Reference Material	Consolidated Financial Results for the First Quarter Ended June 30, 2023

* 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 quarter ended June 30, 2023, the Company posted the following results:
Consolidated net sales: ¥599.2 billion (down 9% year on year)
Operating income: ¥190.8 billion (down 24% year on year)
Ordinary income: ¥217.1 billion (down 17% year on year)
Net income attributable to owners of parent: ¥153.6 billion (down 17% year on year)
- Income declined on a year-on-year basis, but increased quarter-on-quarter.
- To summarize the comparison with the previous quarter (January-March), the income decline in Infrastructure Materials was mainly due to lower sales prices, differences of product mix, and exchange rate differences. In Electronics Materials, the increase in income was mainly due to volume effects. This was due to wafer shipment adjustments and delays in shipments in the previous quarter.

[Status by segment]

- **[Infrastructure Materials]:**
In North America, we announced a PVC price increase by 2 cents per pound in August and the same again in September. Price increases are underway in other regions as well. The caustic soda market is feeling weak.
Housing construction is picking up, as seen in the stock price movements of major U.S. homebuilders. This is also reflected in housing starts, which ranged from just

over 1.4 million to 1.5 million units in May and June. While the housing shortage has not been resolved, construction in the industrial sector is booming, so we expect an increase in demand in North America. In Asia, the market tends to be dragged down by weak domestic demand in China, but we have recently raised prices.

- [Electronics Materials]:

With regard to front-end process materials for semiconductors, the inventory adjustment phase continued. In the midst of this, we are working to break through the situation through close consultations with our customers. With regard to demand for rare-earth magnets, although inventory adjustments of customers for HDDs have dragged on, demand for automotive magnets is recovering. We will appropriately increase capacity and promote product lineup expansion and higher product performance while distinguishing short-term adjustments from medium- to long-term basic demand.

- [Functional Materials]:

Although the general-purpose product market is still affected by economic trends in China, we are focusing on expanding sales of functional and specialty products, which are our strengths, including sales in China. Sales for automotive, personal care, and healthcare applications are growing. We will invest on the order of ¥100 billion yen in order to shift the silicone product mix to higher-performance and higher-value-added products and contribute to decarbonization.

- [Processing, & Specialized Services]:

Earnings in this segment have been relatively stable.

[Full-year operating forecasts and return to shareholders]

- Although the economic climate is constantly changing and forecasts are not easy, we forecast full-year net sales of ¥2.3 trillion and ordinary income of ¥760 billion.
- The annual dividend is expected to be ¥100 per share on a post-split basis. In addition, the Company will conduct a share buyback worth ¥100 billion. These decisions are underpinned by our robust financial position and are part of our capital policy.
- Although the economic climate is changing with every moment and headwinds are expected to increase in the future, we will steadily take steps to further expand our business. We have no intention of resting on this forecast. Although we are prepared to face more headwinds, we remain determined to increase earnings and will focus on that.
- There have been some interesting announcements in the semiconductor materials

industry in the last month. With this acute reminder of the importance of competitiveness, we are inspired to accelerate the strengthening of our own competitiveness.

- As the era of not having to worry about interest rates, which lasted about 12 years, comes to an end and the cost of capital becomes an important factor, we will make the most of our strengths.

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

- Capital investment in the fiscal year ending March 31, 2024 is estimated to be approximately ¥380 billion, and the level of depreciation and amortization is expected to be approximately ¥240 billion.
- Foreign exchange sensitivity of ordinary income: ¥4.1 billion per year for the U.S. dollar and ¥0.4 billion per year for the euro, at a fluctuation of ¥1.

[Q&A Session]

<Infrastructure Materials>

Q	Please explain the earnings in the Infrastructure Materials segment from the fourth quarter (January-March) to the first quarter (April-June).
A	<ul style="list-style-type: none"> • The earnings forecast for Shintech's non-consolidated earnings mentioned in the previous earnings presentation was presented in terms of ordinary income. Segment earnings are reported as operating income, not ordinary income, so there is a slight difference. Note that Shintech's operating income* declined about 8% in dollar terms in the January-March period compared to the October-December period. • Exchange rates had a major impact on the decline in segment operating income compared to the previous quarter. The average exchange rate rose from ¥142/\$ in October-December to ¥132/\$ in January-March. In addition, there was a yen conversion-related skew in the fourth quarter. Shintech's yen-converted income for the October-December period is calculated by subtracting the accumulated income for the January-September period from the annual income. For the yen conversion, the annual income uses the annual average rate, while the accumulated income for the January-September period uses the average rate over a nine-month period. As a result, the net yen-converted income

	for the October-December period was considerably larger than the yen-converted income obtained at the average exchange rate (¥142/\$).
Q	What is the status of Shintech in the April–June quarter?
A	<ul style="list-style-type: none"> • Ordinary income improved slightly in the April-June period compared to the January-March period. • In terms of prices, we raised prices in regions other than North America, resulting in a price effect. In terms of volume, we conducted preventive maintenance at some part of a plant from January to March. Our monomer supplier also conducted scheduled maintenance, but it took longer than scheduled and there were problems restarting afterwards. The recovery is still not completely finished yet. Since our own monomer plant is operating at full capacity, we are working to increase the price of our products in order to maximize and grow earnings.
Q	What are the PVC price trends in the U.S.?
A	<ul style="list-style-type: none"> • We announced a price increase of 2 cents per pound in August and the same again in September. Normally, July and August are when demand weakens in the summer, but demand in North America is stable at the moment, so we will work with strong determination to increase prices. <p>(What is the impact on the PVC price of the reduction in the supply of monomers?)</p> <ul style="list-style-type: none"> • We think we can separate the monomer supply issue from the PVC price trend. • We have been raising prices in regions other than North America, which has been a tailwind. Since the price hike at the beginning of the year did not proceed as expected, we need to push through price hikes with an eye to the second half of this year.
Q	What is the outlook for caustic soda in July-September?
A	<ul style="list-style-type: none"> • Although the caustic soda price weakened somewhat as PVC manufacturing operation increased, the soda price in Asia finally stopped declining. There are now many suppliers who adjust their operations based on profitability, so we expect the international price to turn around. In response, we are anticipating the timing of the turnaround in the North American caustic soda price.

* Due to the difference in fiscal periods, the results of overseas subsidiaries, including Shintech, are reflected in Shin-Etsu Chemical's consolidated results in the subsequent quarter.

(For example, the January-March results of overseas subsidiaries are reflected in the April-June consolidated results of Shin-Etsu Chemical.)

<Electronics Materials>

Q	What are the market trends for semiconductor wafers in the first quarter (April-June)?
A	<ul style="list-style-type: none"> The trends in the wafer market vary slightly by diameter. Looking at the wafers on an area basis, 300 mm was positive compared to the previous quarter, while 200 mm saw a large decrease, and 150 mm and smaller remained sluggish. The main reason for the increase in the 300 mm seems to be the status of performance of long-term agreements.
Q	What are the market trends for semiconductor wafers in the second quarter (July-September)?
A	<ul style="list-style-type: none"> Compared to the first quarter, we expect 300 mm wafers to move in a negative direction as customers further solidify their inventory adjustments, while 200 mm wafers will remain flat or slightly decrease, and 150 mm and smaller wafers will remain flat. We anticipate negative values across all semiconductor wafer diameters on an area basis.
Q	What is the medium- to long-term outlook for semiconductor wafers?
A	<ul style="list-style-type: none"> The market for semiconductor devices grew substantially in 2021-22 due to temporary demand from the COVID-19 pandemic, and is currently in the process of adjusting the increased inventories in response to the pandemic rebound. The wafer market entered this inventory adjustment phase later than the device market, but the end of the adjustment phase is likely to depend on macroeconomic trends. From 2024-25 onwards, we expect the market for AI servers to play a major role in increasing demand for semiconductors.
Q	What is the outlook in terms of memory and non-memory semiconductors?
A	<ul style="list-style-type: none"> Memory manufacturers started to adjust their inventory earlier, and although the adjustment is still ongoing, I expect it to bottom out and turn around in the second half of the fiscal year. For logic and other non-memory semiconductors, there are variations in the timing of inventory adjustments depending on the customer. In the past, the two longest periods of wafer inventory adjustments were 14 months in length. Using that figure as a rule of thumb, since this December marks the 14th month, I expect that starting from January next year, sales will surpass the previous year's level.

Q	What is the impact of US-China tensions on investment in wafers?
A	<ul style="list-style-type: none"> We have 300 mm wafer production facilities in Japan and the U.S., and those for 200 mm and smaller wafers in Asia and Europe. We will consider hedges against various risks, including export restrictions, and will mitigate the impact by deploying production at multiple sites.
Q	What is the status of photoresist and rare earth magnet?
A	<p>(First quarter results)</p> <ul style="list-style-type: none"> The photoresist business saw a slight increase in profit due to delays in the month of shipment from the fourth quarter to the first quarter. There was a similar trend for rare earth magnet. <p>(Outlook for second quarter)</p> <ul style="list-style-type: none"> Both products are relatively stable.
Q	What is the situation with regard to EUV mask blanks?
A	<ul style="list-style-type: none"> The number of customers making advanced devices using EUV mask blanks is relatively limited. These customers are at the forefront of this field and compete with each other, so we have worked closely with them to develop our products. Although each customer is in a different phase, we are now in the process of evaluating and integrating our products into their production lines.
Q	What are the trends in the semiconductor materials industry?
A	<ul style="list-style-type: none"> I will refrain from commenting on individual moves by other companies in the industry, but with regard to movements such as government funds and subsidies, generally speaking, we believe the principle of competition needs to be properly and fairly maintained, and must continue to monitor the situation with such a perspective. At the same time, we will continue to hone our technology and increase our cost competitiveness. We have no financial problems, so we will make the necessary investments.

<Company-wide>

Q	What is the impact of export restrictions in the U.S. and China?
A	<ul style="list-style-type: none"> We are keeping a close eye on U.S. export restrictions and China's retaliatory moves in response. How customers respond to this is important, so I take a close look at their views and how they actually place orders. In fact, looking at shipments of semiconductor wafers, photoresists, and other products, we are seeing Chinese customers procuring safety stock

	<p>more proactively at the moment. The restrictions apply in particular to equipment needed to manufacture advanced devices. The manufacture of such devices has been difficult in China for some time, and the Chinese government's policy is to significantly increase production in areas other than advanced technologies, so we are responding accordingly.</p> <ul style="list-style-type: none"> • Regarding retaliatory measures by China, we have put a lot of thought and effort into this as part of our risk management, so we think we are reasonably well prepared.
Q	What is the outlook for the fiscal year ending March 31, 2024?
A	<ul style="list-style-type: none"> • Our April-June results reflect special circumstances such as shipping adjustments and shipment delays for electronics materials in January-March. Also, when firming up our numeric earnings forecasts, we kept in mind the fact that there will be a major preventive maintenance at Shintech this fall. We anticipate the second half of the current fiscal year to be particularly challenging. • I'm not satisfied with these numbers (earnings forecasts), and we will continue diligently making efforts to further increase earnings.