

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Half Ended September 30, 2024

Date	October 25, 2024 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 Half Ended September 30, 2024

* 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 ended September 30, 2024, the Company posted the following results:
Consolidated net sales: ¥668.5 billion (up 12% year on year)
Operating income: ¥214.6 billion (up 12% year on year)
Ordinary income: ¥223.1 billion (up 6% year on year)
Net income attributable to owners of parent: ¥150.0 billion (up 2% year on year)
- We were able to finish the quarter with operating income up 12% year on year and ordinary income up 6% year on year despite the appreciation of the yen at the end of the quarter.
- At the six-month point, cumulative operating income reached 55% of the full-year forecast.

[Status by segment]

- [Infrastructure Materials]:
 - Regarding domestic PVC demand within North America, domestic sales from July to September showed movements consistent with seasonal trends. According to industry statistics, domestic sales in the July–September quarter decreased by nearly 7% compared to the April–June quarter, but increased by more than 3% year on year. Housing starts have rebounded to the 1.3-million-unit level in August

and September, and housing permits are holding at the 1.4-million-unit level, which is a good trend. Housing demand is expected to pick up next year due to monetary easing. Outside of the North American markets, since PVC exports from China are not slowing down and the supply-demand balance is slackening, market conditions are not encouraging, but we are able to secure sales at favorable prices.

- The caustic soda market has generally been holding steady, though it has seesawed recently.
- Shintech's new facility expansion was just recently completed and production has begun.
- [Electronics Materials]:
 - The market recovery has not been uniform, but has varied by product type, application, and customer. We still expect the recovery of wafer demand to be just a matter of time, although the timing will vary depending on the wafer diameter and customer inventory levels. Demand for lithography materials continues to be strong. We aim to leverage the recovery in demand for semiconductor materials, including wafers, and technological advancements to capture higher sales volumes and grow earnings.
 - In rare earth magnets, while the recovery in HDD applications is leveling off, signs of recovery in FA applications are beginning to emerge.
 - For all products, we are appropriately increasing capacity and promoting product lineup expansion and sophistication.
- [Functional Materials]:
 - We are working on price increases for silicone products. In addition, as in the past, we will continue to expand sales of functional and specialty products, which are our strengths, including sales in China.
- [Processing & Specialized Services]:
 - Earnings in this segment remain stable.

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

- Investment in the fiscal year ending March 31, 2025 is estimated to be approximately ¥498.0 billion (including ¥68.0 billion for the tender offer for Mimasu Semiconductor Industry), and the level of depreciation and amortization is expected to be approximately ¥248.0 billion.
- Foreign exchange sensitivity of ordinary income in the earnings forecast for the fiscal year ending March 31, 2025: ¥4.6 billion per year for the U.S. dollar and ¥0.2

billion per year for the euro, at a fluctuation of ¥1.

[Q&A Session]

<Infrastructure Materials>

Q	How was Shintech's business performance in Q3 (July–September)?
A	<ul style="list-style-type: none">• In Q3, ordinary income decreased on a dollar basis as measured both QoQ (quarter on quarter) and YoY (year on year).• As for the factors contributing to the QoQ decrease in profits, it was largely due to the production cuts caused by the hurricane that hit Texas in early July, shutting down the Freeport plant for 2-3 days, as well as our monomer supplier's production facilities being shut down for a significant period of time.
Q	What are the PVC price trends at Shintech from August onwards?
A	<ul style="list-style-type: none">• Although overseas PVC prices are not favorable, the market is broad, so we are trying to pick up good deals anyway we can. As for the outlook for overseas PVC prices, we see no further declines.• We are watching for any seasonal variation within the U.S. and whether market conditions will weaken somewhat as a result. In terms of U.S. price trends, the price declined in August, remained flat in September, and is expected to remain flat with no changes in October as well. We are not yet at the stage where we can say anything definite about November and December, but we will try not to lower prices.• Sales volumes for the U.S. are expected to decline slightly in November and December due to seasonal variation, but Shintech will continue to sell at full capacity and distribute products worldwide. With Shintech's new facility expansion up and running and no preventive maintenance this fall, volumes will increase, but we will continue to sell out our stock properly.
Q	What is the status of your permit application for a new ethylene plant?
A	<ul style="list-style-type: none">• Shintech is applying for permits not only for ethylene but also for electrolysis and monomers, and the applications are currently undergoing review. The application procedure is currently in progress, and no investment decision has been made.

<Electronics Materials>

Q	What are the market trends for silicon wafers in Q2 (July–September)?
A	<ul style="list-style-type: none"> • In the overall wafer market, sales volume increased both YoY and QoQ. • Looking at wafers by diameter, 300 mm wafers grew, driven by strong demand for generative AI-related products. For smaller diameters of 200 mm and 150 mm and smaller, there are still no signs of recovery.
Q	What is the outlook for 300 mm wafers for Q3 (October–December) and beyond?
A	<ul style="list-style-type: none"> • The recovery in semiconductor devices is mainly driven by AI applications, while other sectors are still experiencing challenging conditions. Although we have long-term agreements in place, customers are requesting purchase adjustments to prevent an increase in wafer inventory.
Q	What is the outlook for 200 mm wafers for Q3 (October–December) and beyond?
A	<ul style="list-style-type: none"> • 200 mm wafers are most commonly used for automotive applications, and are also widely used for consumer and industrial applications. Due to sluggish demand in these sectors, semiconductor devices are undergoing inventory adjustments, and demand for wafers remains weak. We believe that the market recovery depends on macroeconomic conditions.
Q	What explains the large increase in profits in this segment in Q2 (July–September)?
A	<ul style="list-style-type: none"> • The factors contributing to the increase in silicon wafer profits included an increase in sales volume due to the market recovery, higher prices due a shift in the product mix, and additional profit from making Mimasu Semiconductor Industry a consolidated subsidiary. • Outside of wafers, demand for lithography materials such as photoresists was also strong, and higher volumes contributed to higher earnings.
Q	What are the trends in semiconductor materials other than wafers?
A	<ul style="list-style-type: none"> • The photoresists and other lithography materials we handle are for cutting-edge semiconductor devices. These are products that are performing well in the device market, and we therefore benefit by supplying materials for them.

Q	Can you explain the reason for the discrepancy between capital expenditures and depreciation expenses and the timing of the increase in depreciation expenses?
A	<ul style="list-style-type: none"> Capital investment for silicon wafers is based on long-term agreements with customers. We had placed our equipment order early in anticipation of a long delivery time, but the delivery date was moved up and the equipment was delivered ahead of schedule. As a result, capital expenditures increased ahead of schedule. However, depreciation of equipment does not begin until the equipment is actually in operation, creating a discrepancy in the timing between the increase in capital expenditures and the increase in depreciation expenses.

<Functional Materials>

Q	How was business performance in Q2 (July–September)?
A	<ul style="list-style-type: none"> The profit margin is slightly lower compared to Q1 (April–June). On the other hand, sales have somewhat recovered because we are working on both expanding our lineup with functional, high-value-added, and specialty products, as well as increasing sales volume. The results of these steady efforts are gradually showing up in the performance numbers.

<Company-wide>

Q	How do you view the consolidated earnings forecast for the current fiscal year?
A	<p>(Why did you not revise the forecast upward?)</p> <ul style="list-style-type: none"> First of all, there is the fact that our attitude is basically conservative. In addition, there have been significant fluctuations in exchange rates, so we need to watch the situation carefully. We did not make an upward revision based on such considerations. Our rate of progress against our operating income forecast is at 55%, and we will work to further improve our performance. There are various perspectives on whether the change in the exchange rate assumption (140 yen/dollar from October onwards) effectively constitutes an upward revision of the earnings forecast, so I will leave it to you to decide.

Q	Please discuss your capital policy.
A	<ul style="list-style-type: none">• There is no change in our policy. Our number one priority when it comes to using cash is to expand and grow our business, for example through growth investments, business acquisitions, and corporate acquisitions. It is also important to have the financial strength to withstand shocks such as pandemics. Additionally, we will place a high priority on flexibly returning profits to our shareholders as we have done in recent years. Based on these considerations, we will work with capital policy in mind to secure a certain level of equity spread*. I believe that these efforts need to be continued. By doing so, we can reduce volatility and lower the cost of capital.

*Equity Spread (%) = ROE less the cost of equity