

Shin-Etsu Chemical Co., Ltd.

Summary of Telephone Conference on Financial Results for the First Quarter Ended June 30, 2022

Date	July 27, 2022 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, 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 quarter ended June 30, 2022, the Company posted the following results: Consolidated net sales of ¥656.7 billion (up 51% year on year), operating income of ¥249.6 billion (up 94% year on year), ordinary income of ¥262.6 billion (doubled year on year), and net income attributable to owners of parent of ¥184.1 billion (up 92% year on year)

- All segments achieved significant growth in sales and profits.

[Status by segment]

- [Infrastructure Materials]:
In North America, PVC prices were increased by 3 cents/lb in April. Prices have remained at that level for two months. There will be some price adjustments in July. In North America, PVC users have responded wisely to inventory adjustments in the market, rather than paying off the margins they have gained to date. Also for resin, based on the industry statistics for June, there is recognition in the market that price elasticity of demand is low during the inventory adjustment period. Asian market conditions began to decline around April. The situation in China will be key, but it will soon bottom out.

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

- [Electronics Materials]:

There has been no significant change in the input of semiconductor front-end process materials. Things are going as expected.

Demand for rare earth magnets remains strong. Electronization and electrification of cars, high-performance computing (HPC), and green transformation (GX) are continuing. We will build capacity by considering cyclical adjustments and basic demand.

- [Functional Materials]:

While demand for general-purpose products has been slowing, demand for functional products and specialty products, which are the Company's strengths, has been firm, and the ratios of those products are increasing. We will strengthen the supply system.

- [Processing, & Specialized Services]:

There has been no change in demand for wafer cases, including inprocess wafer cases.

[Full-year operating forecasts and return to shareholders]

- Although it is still difficult to make forecasts, the Company's full-year projections are : consolidated net sales of ¥2,550 billion and ordinary income of ¥840 billion. Based on this forecast, net income per share will be ¥1,433, ROIC will be 29%, and ROE will come to 16.7%.
- The annual dividend is expected to be ¥450 per share, an increase of ¥50. The Company also decided to repurchase treasury shares worth ¥100 billion. These are the results of the Company's business performance, backed by its solid financial position, and a sign of our intention to reward shareholders.

[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 ¥270 billion, and the level of depreciation and amortization is expected to be ¥206 billion.
- Foreign exchange sensitivity of ordinary income: ¥5.4 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 PVC market conditions.
A	<ul style="list-style-type: none">• Asian market conditions will likely hit the bottom soon. One reason for this is the recent market trend. The other is the current price level along with cost. In other words, the level is such that any proper supplier would consider entering a production adjustment phase. Based on these two points, we believe the market will likely hit the bottom in the near future.• The North American market remains firm compared with markets in Asia. We anticipate price adjustments (downward) in July, but do not expect to see a rapid decline as we saw in Asia. Since our customers are also taking very careful steps, it is most unlikely that the entire PVC industry, including the processing industry, will be shaken up. (Differences in market conditions between Asia and North America) <ul style="list-style-type: none">• According to the industry statistics for June, we can see that (in North America) they are operating with profitability in mind. Because of the tight monetary policy to control inflation, I think that demand in the U.S. will inevitably decline. In such a correction phase, the PVC market in North America is taking a cautious approach.• The July price adjustment (downward) level in North America will likely be higher than 3 cents/lb. (Market data published by Bloomberg)• I am not sure because I am not a subscriber, but it is probably the export price from the U.S. which is not relevant to the North American market. I will refrain from making a comment as I do not know what research results are the source of the data.
Q	What is your outlook for PVC in North America?

A	<ul style="list-style-type: none"> • There have been various trends in the PVC market in the past, and the Company has gained a good level of experience. Over the past two years, particularly from the second half of last year to this year, the PVC market price has risen further and reached another record-high level. Currently, monetary policy is being tightened to curb inflation. Recent media reports indicate that there are concerns about an economic downturn. We have been operating while keeping two scenarios in mind, i.e., whether the downturn will be deep or shallow. <p>(Whether the PVC market will return to the level of two years ago)</p> <ul style="list-style-type: none"> • Our customers are responding quite calmly, which is where I see the difference compared with the situations in the past. Acting in harmony, the suppliers of resin are also dealing with matters calmly. PVC is deeply involved in housing construction, but the housing shortage remains obvious. Housing prices rise even as home sales decline. Also, people who have given up on owning a house go to rental housing, causing rents to go up. Basically, there is a lack of houses. Housing starts are in an adjustment phase, but I expect housing construction will make progress. We can see that the housing construction industry has the same idea. <p>(Calm response by our customers)</p> <ul style="list-style-type: none"> • While customers are also in the midst of inventory adjustments, they have achieved substantial margin improvements for nearly two years. This means that they operate with careful consideration of the best production and sales approaches. There are some differences in each industry, but our customers are responding calmly to market changes.
Q	What are your strategies when risk scenarios emerge?
A	<ul style="list-style-type: none"> • We are the only manufacturer who has increased PVC capacity recently. We have also invested in ethylene production facilities and have strengthened integrated production. We are also making various efforts in how we procure raw materials. As the market situation changes, please look at the differences between the Company and our competitors.
Q	What is the status of caustic soda in Asia?
A	<ul style="list-style-type: none"> • Caustic soda, which is used in a variety of fields and applications is generally performing stably. Considering the market situation, I think both PVC and caustic soda are bottoming out.

Q	What is the impact of rising natural gas prices in Europe and North America on earnings for the year ending March 2023?
A	<ul style="list-style-type: none"> • In Europe, prices of energy, natural gas, and other forms of energy remain high and may go up further. In the European business, we manage the situation by passing on costs to prices as much as possible. On the other hand, it is said that the European economy will decline considerably. If so, the overall demand will be adjusted, and energy prices will also go down. In any case, I believe our strategy is to continue doing our best in passing on the increase in energy-related costs. • In the U.S., natural gas prices continue to rise, and the price of ethane, the main raw material of ethylene, is relatively higher than before. However, it is much better than the cost of petroleum-based PVC. We believe that we must take advantage of these cost differences.

<Electronics Materials>

Q	What are the trends of silicon wafers from the April–June quarter to the July–September quarter?
A	<ul style="list-style-type: none"> • Regarding orders for 300 mm wafers and 200 mm wafers, no adjustments can be recognized in the July–September quarter. Wafers of 150 mm or less are on a declining trend.
Q	What is your outlook for silicon wafers?
A	<ul style="list-style-type: none"> • In the short term, we expect strong demand for EV and Green investment. For consumer products, PCs and servers, inventory adjustments and capital expenditure adjustments are likely. On the other hand, during the past two years, there was a move to build up inventory due to supply chain disruptions and others. However, customers were unable to accumulate inventory of 300 mm and 200 mm wafers because wafer manufacturers' capacity increases were limited. Therefore, we view that trends differ between devices and wafers, and we do not anticipate a significant decrease in demand for 300 mm wafers at this point. • In the medium term, demand for 300 mm wafers is expected to increase. In addition, some memory and logic devices will start using two wafers, bonding together in their process. We will gradually expand capacities

	<p>based on long-term agreements with our customers.</p> <p>Demand for 200 mm wafers is expected to be steady over the medium term, but the current price level is not enough to reinvest, and we do not plan to increase capacity.</p>
Q	What is the progress in capital investment for silicon wafers?
A	<ul style="list-style-type: none"> • The current investment is mainly brownfield investment, but the equipment delivery time is getting longer. There is no significant delay in the plan at this time.
Q	What is the degree of profit growth in the Electronics Materials segment?
A	<ul style="list-style-type: none"> • In terms of profit, semiconductor wafers are the largest contributor, and photoresists are in second place, followed by rare earth magnets. Other products also contributed to profit growth.

<Functional Materials>

Q	Please describe the background to the improved profit margin and whether it will continue.
A	<ul style="list-style-type: none"> • It shows that the ratios of specialized products are increasing. Not only silicone products, but also cellulose and other products. • It is a result of our product mix moving in the direction of higher profit margins, and we are working to maintain and further improve this state.

<Company-wide>

Q	How about the full-year forecast?
A	<ul style="list-style-type: none"> • We do not recommend that you try to split the full-year forecast into four parts and compare with the first quarter result. I understand that the forecasted ordinary income of ¥840 billion will signify not only another record high but also a number that exceeds “the consensus.” Therefore, we would like you to take the view that the results for the April–June quarter in terms of the progress rate are more than 30% against the full-year forecast.

Q	What are your views on share buybacks and capital policy?
A	<ul style="list-style-type: none"> • We have always said that we will carry out share buyback in a flexible manner. I have my own view about the criteria for cash on hand. Based on discussions with the Board of Directors, we decided our plan for share buybacks. • With regard to dividends, we have also talked about a standard for the dividend payout ratio based on our policy of continuing to pay dividends over the long term and in a stable manner. We also believe it is necessary to set an upward trend for dividends, and in consideration of these factors, we have made the dividend forecast and the plan for share buybacks. • Funds obtained from the business are reinvested in the business. We will also steadily carry this out. • You may want to point out that cash continues to accumulate even while these steps are implemented. We will invest in our business in a timely manner, and these capital investments come in various sizes and will be conducted while considering relevant factors. Our capital policy is consistent, but we are thinking flexibly, so we would like you to take a long-term perspective.
Q	What are your views and aspirations for further promoting earnings growth in the next fiscal year?
A	<ul style="list-style-type: none"> • We are expanding our PVC production capacity in the U.S. at Shintech and increasing the capacity of silicon wafers based on contracts with our customers. We are also increasing production capacity of other electronics materials, as mentioned in the financial summary. At any rate, we have busy operations in all businesses, so we will steadily increase our production capacity and first pursue profit growth supported by such capacity increases. • The key will be how to maintain spreads and margins against fluctuations in market conditions. We intend to realize this by leveraging our experience and know-how in every way possible.