Brief Statement on Consolidated Financial Results for Fiscal Year 2014 (Ended December 31, 2014) [Japanese Accounting Standards]

February 12, 2015

Company name: SUMCO Corporation
TSE First Section
Code: 3436 URL: http://www.sumcosi.com/
Representative: Mayuki Hashimoto, President & CEO
Contact person: Hiroshi Shibuya, General Manager, Public Relations & IR Department (Tel: +81-3-5444-3915)
Scheduled date of ordinary general meeting of shareholders: March 25, 2015
Scheduled date of commencement of dividend payment: March 26, 2015
Scheduled date of filing of annual security report: March 25, 2015
Supplementary materials for financial results: Yes
Results briefing: Yes (For institutional investors and security analysts)

(Amounts smaller than one million yen are rounded down)

1. Consolidated Business Results for Fiscal Year ended December 31, 2014 (January 1, 2014 - December 31, 2014)

(1) Consolidated Business Results

(Percentage figures represent year-on-year changes)

	Net sales (millions of yen)	(%)	Operating income (millions of yen)	(%)	Ordinary income (millions of yen)	(%)	Net income (millions of yen)	(%)
Year ended Dec. 31, 2014	225,319	—	25,642	—	21,926	—	16,289	—
Year ended Dec. 31, 2013	185,105	—	17,801	—	7,065	—	715	—

(Note) Comprehensive income Year ended Dec. 31, 2014: 26,922 million yen (—%)
Year ended Dec. 31, 2013: 16,281 million yen (—%)

	Net income per share (yen)	Diluted net income per share (yen)	Net income / Shareholders' equity (%)	Ordinary income / Total assets (%)	Operating income / Net sales (%)
Year ended Dec. 31, 2014	58.84	53.18	9.2	4.3	11.4
Year ended Dec. 31, 2013	(1.22)	—	0.4	1.4	9.6

(Reference) Equity in earnings of affiliates Year ended Dec. 31, 2014: — million yen
Year ended Dec. 31, 2013: — million yen

(Note) SUMCO changed its fiscal year-end from January 31 to December 31. Fiscal year ended December 31, 2013 was the eleven months transitional period (February 1, 2013 – December 31, 2013), therefore year-on-year changes are not shown.

(2) Consolidated Financial Position

	Total assets (millions of yen)	Equity (millions of yen)	Shareholders' equity ratio (%)	Shareholders' equity per share (Yen)
Year ended Dec. 31, 2014	510,570	216,725	36.2	538.81
Year ended Dec. 31, 2013	498,522	194,836	33.7	473.42

(Reference) Shareholders' equity Year ended Dec. 31, 2014: 185,001 million yen
Year ended Dec. 31, 2013: 168,050 million yen

(3) Consolidated Cash Flow

	Operating activities (millions of yen)	Investment Activities (millions of yen)	Financing Activities (millions of yen)	Cash and cash equivalents (millions of yen)
Year ended Dec. 31, 2014	29,845	(9,814)	(19,741)	65,716
Year ended Dec. 31, 2013	2,341	(8,735)	(4,513)	62,863

2. Dividend Payments

	Dividends per share					Total dividend (Annual)	Dividend ratio (Consolidated)	Dividend / Net assets (Consolidated)
	First quarter (yen)	Second quarter (yen)	Third quarter (yen)	Year-end (yen)	Total (yen)	(millions of yen)	(%)	(%)
Year ended Dec. 31, 2013	—	0.00	—	1.00	1.00	257	—	0.2
Year ended Dec. 31, 2014	—	0.00	—	4.00	4.00	1,030	6.8	0.8
Year ending Dec. 31, 2015 (Forecast)	—	—	—	—	—		—	

(Notes) (1) Dividends per share for the fiscal year-ending December 31, 2015 are not determined.
(2)The above "Dividend Payments" is the status of dividend related to common stock. As for the status of dividend for class shares (unlisted) with different rights from those of the company's common stock, please see "(Reference) Dividend Payments for class A shares" on page 4.

3. Consolidated Business Forecasts for the First Quarter of Fiscal Year 2015 (January 1, 2015 – March 31, 2015)

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(yen)
1Q- FY2015 (3 months)	59,500	16.8	8,000	58.0	6,500	61.2	4,000	42.4	14.44

(Notes) SUMCO discloses forecasts for the forthcoming quarter only. For more information, please see "Outlook for the First Quarter of Fiscal Year 2015" on page 2 of Supplementary Materials.

* Notes

(1) Changes in important subsidiaries during the fiscal year: No
(Note) For more information, please see "Situation of the Corporate Group" on page 7 of Supplementary Materials.

(2) Changes in accounting policies, changes in accounting estimates and corrections of prior-period errors
[1] Changes in accounting policies applied with revisions of accounting standards: Yes
[2] Changes in accounting policies other than [1]: No
[3] Changes in accounting estimates: No
[4] Corrections of prior-period errors: No
(Note) For more information, please see "Change in accounting policies" on page 16 of Supplementary Materials.

(3) Number of issued shares (common stock)
[1] Issued shares as of the end of period (including treasury stock):
257,751,739 shares for the fiscal year 2014, ended December 31, 2014
257,751,739 shares for the fiscal year 2013, ended December 31, 2013
[2] Treasury stock as of the end of period:
6,246 shares for the fiscal year 2014, ended December 31, 2014
5,826 shares for the fiscal year 2013, ended December 31, 2013
[3] Average number of shares during period:
257,745,816 shares for the fiscal year 2014, ended December 31, 2014
257,746,136 shares for the fiscal year 2013, ended December 31, 2013

(Reference) Summary of Nonconsolidated Business Results

Nonconsolidated Business Results for Fiscal Year ended December 31, 2014
(January 1, 2014 – December 31, 2014)

(1) Nonconsolidated Business Results (Percentage figures represent changes from previous year)

	Net sales (millions of yen)	(%)	Operating income (millions of yen)	(%)	Ordinary income (millions of yen)	(%)	Net income (millions of yen)	(%)
Year ended Dec. 31, 2014	177,426	—	11,587	—	9,030	—	9,712	—
Year ended Dec. 31, 2013	139,434	—	9,648	—	(380)	—	(1,479)	—

	Net income per share (yen)	Diluted net income per share (yen)
Year ended Dec. 31, 2014	33.32	31.71
Year ended Dec. 31, 2013	(9.73)	—

(Note) SUMCO changed its fiscal year-end from January 31 to December 31. Fiscal year ended December 31, 2013 was the eleven months transitional period (February 1, 2013 – December 31, 2013), therefore year-on-year changes are not shown.

(2) Nonconsolidated Financial Position

	Total assets (millions of yen)	Equity (millions of yen)	Shareholders' equity ratio (%)	Shareholders' equity per share (Yen)
Year ended Dec. 31, 2014	457,871	169,288	37.0	477.85
Year ended Dec. 31, 2013	456,645	160,864	35.2	445.54

(Reference) Shareholders' equity Year ended Dec. 31, 2014: 169,288 million yen
Year ended Dec. 31, 2013: 160,864 million yen

* Information regarding audit procedures:

This Brief Statement on Consolidated Financial Results is unaudited. Audit procedures for financial statements pursuant to the Financial Instruments and Exchange Act had not been completed at the time of the disclosure of this Brief Statement on Consolidated Financial Results.

* Explanations regarding appropriate use of business forecasts and other special instructions:

Business forecasts and other forward-looking statements contained in this Brief Statement on Consolidated Financial Results are based on information currently available to the Company and on certain assumptions that the Company considers to be reasonable, and do not constitute guarantees of future performance. Actual results may differ significantly from those projected in the forward-looking statements as a result of various factors. Regarding the assumptions underlying business forecasts, please see "Outlook for the First Quarter of Fiscal Year 2015" on page 2 of Supplementary Materials.

SUMCO changed its fiscal year-end from January 31 to December 31 because "Proposal for Partial amendment to Article of Incorporation" was approved at its general meeting of shareholders on April 25, 2013. Fiscal year 2013 was the eleven months transitional period (February 1, 2013 – December 31, 2013).

Dividends per share for the fiscal year-ending December 31, 2015 are not determined, and a forecast will be disclosed as soon as the disclosure becomes possible. For details, please see "Basic Policy on Profit Distribution and Dividends for the current term and the next term" on page 4 of Supplementary Materials.

Results briefing for institutional investors and security analysts are scheduled on February 12, 2015. Supplementary materials for financial results are available in our web site after starting the briefing.

(Reference) Dividend Payments for class A shares

Dividend per share related to class shares (unlisted) with different rights from those of the company's common stock

Class A shares	Dividends per share				
	First quarter (yen)	Second quarter (yen)	Third quarter (yen)	Year-end (yen)	Total (yen)
Year ended Dec. 31, 2013	—	—	—	2,287,671.23	2,287,671.23
Year ended Dec. 31, 2014	—	—	—	2,500,000.00	2,500,000.00
Year ending Dec. 31, 2015 (Forecast)	—	—	—	—	—

(Note) Dividends per share for the fiscal year-ending December 31, 2015 are not determined.

(Supplementary Materials)

Contents

1. Analysis of Business Results and Financial Position
   (1) Analysis of Business Results p.2
   (2) Analysis of Financial Position p.3
   (3) Basic Policy on Profit Distribution and Dividends for the current term and the next term p.4
   (4) Business Risks p.4

2. Situation of the Corporate Group p.7

3. Management Policies
   (1) Basic Policies of Corporate Management....p.8
   (2) Target Management Indicator, Medium- to Long-term Management Strategies p.8
   (3) Challenges Facing SUMCO Group p.8

4. Consolidated Financial Statements
   (1) Consolidated Balance Sheets p.9
   (2) Consolidated Statements of Operations and Consolidated Statement of Comprehensive Income p.11
   (3) Consolidated Statements of Changes in Equity p.13
   (4) Consolidated Statements of Cash Flows p.15
   (5) Notes to Consolidated Financial Statements p.16

5. Others
   (1) Changes in Officers p.19

1. Analysis of Business Results and Financial Position

(1) Analysis of Business Results

① Business Results for the Fiscal Year 2014

The silicon wafer market for semiconductors is normally sluggish during the fourth quarter and through the first part of the following year due to demand adjustment reflecting seasonal fluctuations. Following this pattern, SUMCO initially projected that the market would soften during the fourth quarter of fiscal year 2014. However, contrary to expectations, no significant seasonal adjustment occurred as semiconductor production remained firm due to strong demand for final products. As a result, the firmness in demand that started in the April–June 2014 quarter was maintained.

Demand for 300 mm silicon wafers was firm due to demand for smartphones, and was also given a boost as PC sales bottomed out. The market gained further support from demand for data centers.

Demand for small-diameter wafers of 200 mm or less remained generally firm, although moderate adjustment was seen in some areas of demand for consumer and industrial applications.

SUMCO, however, registered a decline in volume terms due to the concentration of periodic maintenance in the fourth quarter of fiscal year 2014.

In this environment, following the direction set by the SUMCO Vision, the SUMCO Group has strived to bolster its market presence by developing technologies that meet customers' demands for high levels of precision and product differentiation, while simultaneously reducing costs to lower its break-even point.

As a result, for the fiscal year 2014 (January 1, 2014 – December 31, 2014), the SUMCO Group registered consolidated net sales of 225,319 million yen, operating income of 25,642 million yen, ordinary income of 21,926 million yen, and net income of 16,289 million yen.

② Outlook for the First Quarter of Fiscal Year 2015

Although the first quarter is normally an adjustment period in the silicon wafer market, SUMCO forecasts that firmness in demand observed in the fourth quarter of fiscal year 2014 will be carried over into the first quarter of fiscal year 2015.

In light of this market outlook, the SUMCO Group is committed to capturing the growth in demand, and to strengthening its revenue base by continuing to lower costs.

It is difficult for the SUMCO Group to formulate reasonable business forecasts for the half-year and full-year, since the semiconductor industry to which the SUMCO Group belongs is characterized by drastic and short-term changes in the business environment. Therefore, SUMCO has adopted the policy of disclosing business forecasts for the forthcoming quarter only.

SUMCO announces its consolidated business forecasts for the first quarter of fiscal year 2015 as follows.

Consolidated Business forecasts for the First Quarter of Fiscal Year 2015 (Jan. 1, 2015 – Mar. 31, 2015)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)	(yen)
1Q-FY2015 (3 months)	59,500	8,000	6,500	4,000	14.44
(Reference) Results for 1Q-FY2014 (3 months)	50,931	5,063	4,031	2,808	9.82

(Notes) (1) Business forecasts and other forward-looking statements contained in this Brief Statement on Consolidated Financial Results are based on information currently available to the Company and on certain assumptions that the Company considers to be reasonable, and do not constitute guarantees of future performance. Actual results may differ significantly from those projected in the forward-looking statements as a result of various factors.

(2) The above forecasts for the first quarter of fiscal year 2015 was made assuming translation rates of one U.S. dollar to 118 yen.

(2) Analysis of Financial Position

① Analysis of Assets, Liabilities and Equity

Total assets at the end of fiscal year 2014 increased by 12,047 million yen from the end of the previous fiscal year to 510,570 million yen. The main factors of this change were 9,480 million yen decrease in non-current assets due to progression of depreciation and usage of long-term advanced payments and 21,528 million yen increase in current assets of mainly cash and time deposits and notes and accounts receivable - trade.

Total liabilities at the end of fiscal year 2014 decreased by 9,841 million yen from the end of the previous fiscal year to 293,845 million yen. The main factors were 7,817 million yen increase in long-term debt, 23,436 million yen decrease in short-term borrowings, registration of net defined benefit liability of 21,677 million yen instead of liability for employee retirement benefits of 17,505 million yen due to adoption of revised retirement benefit accounting.

Total equity at the end of fiscal year 2014 increased by 21,889 million yen from the end of the previous fiscal year to 216,725 million yen. The main factors were registration of remeasurements of defined benefit plans of (3,488) million yen, 15,022 million yen increase in retained earnings due to registration of net income, 5,275 million yen increase in foreign currency translation adjustment and 4,938 million yen increase in minority interests due to weaker yen.

② Analysis of Cash Flow

Cash and cash equivalents at the end of fiscal year 2014 increased by 2,853 million yen from the end of the previous fiscal year to 65,716 million yen. This increase mainly reflects the fact that net cash provided by operating activities was 29,845 million yen, net cash used in investing activities was 9,814 million yen, net cash used in financing activities was 19,741 million yen and foreign currency transaction adjustment on cash and cash equivalents was 2,525.

The situation for each type of each cash flow for fiscal year 2014 and contributing factors were as follows.

(Cash flow from operating activities)

Net cash provided by operating activities for fiscal year 2014 increased by 27,504 million yen from the previous fiscal year to 29,845 million yen. The favorable reasons were improvement of income before income taxes and minority interests, and unfavorable reasons were increase in notes and account receivable – trade and increase in inventories.

(Cash flow from investing activities)

Net cash used in investing activities for fiscal year 2014 increased by 1,078 million yen from the previous fiscal year to 9,814 million yen. This was mainly caused by increased payments for purchases of fixed assets.

(Cash flow from financing activities)

Net cash used in financing activities for fiscal year 2014 was 19,741 million yen. The main factors were Proceeds from long-term debt of 66,900 million yen, repayments of long-term debt of 57,505 million yen and decrease in short term debt, net of 25,181 million yen.

(Reference) Trends in cash flow indices

		Year ended Jan. 31, 2011	Year ended Jan. 31, 2012	Year ended Jan. 31, 2013	Year ended Dec. 31, 2013	Year ended Dec. 31, 2014
Equity ratio	(%)	35.0	25.1	32.2	33.7	36.2
Market-value based equity ratio	(%)	57.4	38.6	49.6	48.0	88.3
Cash flow to interest-bearing debt ratio	(Yr)	9.1	12.4	14.7	102.0	7.4
Interest coverage ratio	(Times)	6.1	4.9	4.9	0.7	8.2

Equity ratio: Shareholders' equity / Total assets
Market-value based equity ratio: Total market value of shares / Total assets
Cash flow to interest-bearing debt ratio: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows/ Interest paid

(Note 1) All figures are calculated using consolidated financial basis.
(Note 2) Total market value of shares was calculated using the number of outstanding shares excluding treasury stock.
(Note 3) Cash flows from operating activities are referred to as "Cash flows"
(Note 4) Interest-bearing debts cover all debts out of liabilities posted in consolidated balance sheets that are subject to interest payment.

(Note 5) Fiscal year ended December 31, 2013 was the eleven months transitional period (February 1, 2013 – December 31, 2013) due to change of fiscal year-end.

(3) Basic Policy on Profit Distribution and Dividends for the current term and the next term

SUMCO's basic policy on distribution of surplus is determined through overall consideration of profit levels for each fiscal year, the outlook for subsequent terms, financial requirements for capital expenditures, the status of internal reserves and other factors.

The year-end dividend for common stocks for the current period has been set 4 yen per share.

The dividends for the fiscal year ending December 31, 2015 are not determined.

(4) Business Risks

The following is a list of factors that the SUMCO Group identifies as major risks to its management and business activities. Although the Group is taking measures to prevent the realization of these risks and to respond as required in the event that a risk materializes, these factors may have a significant effect on the Group's operations, business results, or performance.

Note that forward-looking statements contained in the descriptions of the factors below are based on the Group's judgment as of the date of publication of this document. Actual results may differ as such statements include uncertainty.

① Operating Environment

As the silicon wafers manufactured and sold by the SUMCO Group are used primarily for semiconductor substrates, the Group's business is susceptible to a number of factors specific to the semiconductor and associated industries. Among these factors are sharp deterioration of market conditions in the semiconductor industry; the accelerated pace of technological progress in the semiconductor and associated industries; obsolescence of products; dramatic changes in product mixes; declines in product prices; reliance on a limited number of customers for a large percentage of sales, and volatility in the volume of orders from such customers; changes in the Group's competitive advantage due to a shift in its standing in comparison to competitors; and large fluctuations in demand from customers. These factors may affect the Group's business results or performance.

In addition to the above factors, the domestic and foreign economic situation such as political situation including the countries with our customers, and change of resources price including energy and power price may affect the Group's business results or performance.

② Group Products

Prices of semiconductors that use products manufactured by the SUMCO Group generally tend to decline after their market release due in part to widespread application and subsequent growth in sales volumes. The Group's business plans incorporate various measures aimed at offsetting the expected decline in the prices of its products. These measures include efforts to raise sales volumes by increasing production levels and to improve manufacturing processes to raise production yields. However, if prices decline more significantly than expected due to a sudden downturn of supply-demand balance or because of some other event, such price declines may affect the Group's business results or performance.

In addition to the above factors, problems related to product quality may arise. Specifically, a product supplied by the Group to a customer may not meet the required standards and specifications or may be incompatible with the customer's own products. Such problems may result in serious complaints on product quality. Problems pertaining to failure to reach targets for improving productivity may also arise. In such instances, earnings may decline if the Group is unable to consistently improve manufacturing efficiency, for example by raising production yields. The Group is also exposed to the risk of interruption or significant delay in manufacturing processes due to an accident involving manufacturing equipment, system trouble or other causes. Such events could reduce the production capacity of the entire Group and make it difficult to supply customers with certain products. Consequently, these events may affect the Group's business results or performance.

③ Procurement of Raw Materials

The principal raw material for silicon wafers is extremely high-purity polycrystalline silicon. As only a very limited number of manufacturers are capable of producing such silicon, there is a risk of supply instability. To ensure stable procurement of raw materials, the SUMCO Group has concluded with the world's major polycrystalline silicon manufacturers long-term purchase agreements, under which the manufacturers are committed to supplying, and the Group agrees to purchase, specified volumes of polycrystalline silicon over a specified period of time. However, current consumption projections are no longer in line with demand expectations that prevailed at the time when the long-term purchase agreements were entered into. As a result, the Group is currently holding excess inventory.

In addition, because purchase prices are decided in long-term contracts, opportunities of the raw materials

cost reduction may be limited until expiration of these contracts and inventory recovers to adequate level.

The outlook for increase in "Raw materials and Supplies" is as indicated under "3. Management Policies (3) Challenges Facing SUMCO Group", but it should be noted that changes in consumption amounts or the introduction of necessary accounting measures due to significant changes in the business environment or other factors may affect the Group's business results, financial position, or performance.

④ Procurement of Key Manufacturing Equipment

Critical manufacturing equipment used by the SUMCO Group includes such specialized machinery as double-side polishing machines developed jointly with equipment manufacturers. Taking this into consideration, the Group may not be able to find alternative suppliers of such equipment. Consequently, any problem hampering the smooth procurement of such manufacturing equipment may affect the Group's business results or performance.

⑤ Risks Related to Customers and Suppliers (bankruptcies, shutdown, etc.)

While the SUMCO Group carefully monitors the creditworthiness of its customers, bankruptcies of customers resulting in substantial amounts of uncollectable receivables may affect the Group's business results, financial position, or performance. To avoid risks of disruption in procurement, the Group has taken multiple measures, such as concluding supply contracts with multiple suppliers of various materials. However, in the event, for example, of a supplier's bankruptcy due to a sharp deterioration in economic conditions, or of a supplier's shutdown due to an accident involving manufacturing equipment, the resultant difficulty in procuring materials may affect the Group's business results, financial position, or performance.

⑥ Capital Investment

The SUMCO Group undertakes capital investment based on its medium- to long-term demand projections. However, if changes in economic trends or in the operating environment of the semiconductor industry result in substantial shifts in projected demand, the Group's business development, business results, or performance may be affected.

⑦ Procurement of Funds

Significant deterioration in the SUMCO Group's financial position could result in breach of financial covenants set out in its syndicated and other loan contracts, and forfeit the benefit of time. Such an event could trigger demands for repayment of relevant loans, and in turn lead the Group to affect is ability to procure funds.

In addition, failure to procure funds at the desired time or under the desired terms due to interest rate levels, market conditions, or other factors may affect the Group's business results or performance.

⑧ Technology and R&D

The semiconductor industry is characterized by rapid advances in technology, a process that finds expression in such forms as higher circuit densities, finer lines, new applications for semiconductors, greater precision, and higher manufacturing efficiency. Customers have a broad range of technological demands with regard to silicon wafers supplied by the SUMCO Group and are constantly demanding the achievement of even higher specifications. To meet customer demands, the Group is engaged in R&D activities with an emphasis on technologies for 300 mm wafers, an area where medium- to long-term growth in demand is expected. By product category, emphasis is being placed on technologies related to epitaxial wafers, annealed wafers, and other high value-added products, as well as on technologies pertaining to next-generation wafer products.

However, R&D activities may not produce the expected benefits if the Group becomes unable to respond to technological advances in the semiconductor industry and to comply with customer demands, or if the technology development is delayed compared with competitors. In that event, the Group's business development, business results, or performance may be affected.

⑨ Intellectual Property Rights

The SUMCO Group recognizes that securing patents and other intellectual property rights is vital to its ability to compete with other silicon wafer manufacturers. The Group holds a large number of patents, including those pending, both in Japan and abroad.

Moreover, the Group holds basic patents pertaining to the manufacture of crystals grown from larger charge sizes, low-defect crystals, high-precision double-side polishing, and other items. The Group is also working on applying for patents involving technologies developed based on, and peripheral technologies associated with, its patented technologies.

However, the Group may infringe a third party's patent without knowing the patent exists. In that case, the Group may become a defendant in litigation seeking injunction against the use of the patent, payment of damages, or other actions. These events may affect the Group's business development, business results, or performance.

⑩ Overseas Operations

The SUMCO Group supplies silicon wafers to major semiconductor manufacturers and other entities worldwide. It also has manufacturing and sales bases in North America, Europe, and Asia, as well as in Japan. As a result, in addition to being susceptible to exchange-rate risks, the Group's manufacturing and sales activities may be affected by changes in the economic and political developments, laws and regulations, taxation, currency conversion restrictions, and other conditions of the countries and regions in which the Group operates. Other factors that may affect its activities include wars and local conflicts, acts of terrorism or natural disasters, epidemics, different social and labor practices, and underdeveloped social infrastructure in those countries and regions.

⑪ Environmental Laws and Regulations

The SUMCO Group operations, in particular its manufacturing bases, are subject to environmental laws and regulations in Japan and abroad that govern such matters as energy consumption, atmospheric emissions and effluents, the use and storage of harmful chemical substances, the disposal of industrial wastes, and investigation of soil and groundwater pollution and removal of their contaminants. Pursuant to these laws and regulations, the Group may be held legally responsible for certain expenses and damages or may be required to take other actions. Furthermore, in recent years, there has been a general tendency toward the tightening environmental laws and regulations. Looking ahead, the Group may become subject to new environmental laws and regulations in Japan and other countries. In such cases, the Group could incur additional expenses for complying with these laws and regulations. Any of these events may affect the Group's business development, business results, or performance.

⑫ Natural Disasters and Accidents

In the event of natural disasters, such as typhoons, rainstorms, earthquakes, tsunamis, and volcanic activities, as well as of accidents, fires, acts of terrorism, and other contingencies and crises, the SUMCO Group manufacturing bases may face unexpected problems, including shutdown of operations, damaged equipment, and limited access to water and electricity. In that event, the Group's business development, business results, or performance may be affected.

In particular, in the event that the Group's facilities housing its 300 mm wafer manufacturing processes are hit by natural disasters, accidents, fires, or other events mentioned above, the Group's ability to manufacture and sell 300 mm wafers, its main product, may be impaired. Such an event may affect the Group's business development, business results, or performance.

⑬ Acquisition of Other Companies

When considering the acquisition of another company, the SUMCO Group endeavors to minimize risks by performing due diligence concerning the financial conditions and other aspects of the company under consideration. However, in the event of drastic changes in the business environment and other unexpected situations, such acquisitions may affect the Group's business development, business results, or performance.

⑭ Other Risks

The following events resulting from changes in the business environment and other developments may affect the SUMCO Group's business results, financial position, or performance:

a. Major changes in the business environment necessitating business or organizational restructuring or other actions;

b. With regard to retirement benefit obligations, a decline in the market value of SUMCO's pension assets, a decline in return on investment, or significant changes in the actuarial assumptions used in the calculation of retirement benefit obligations;

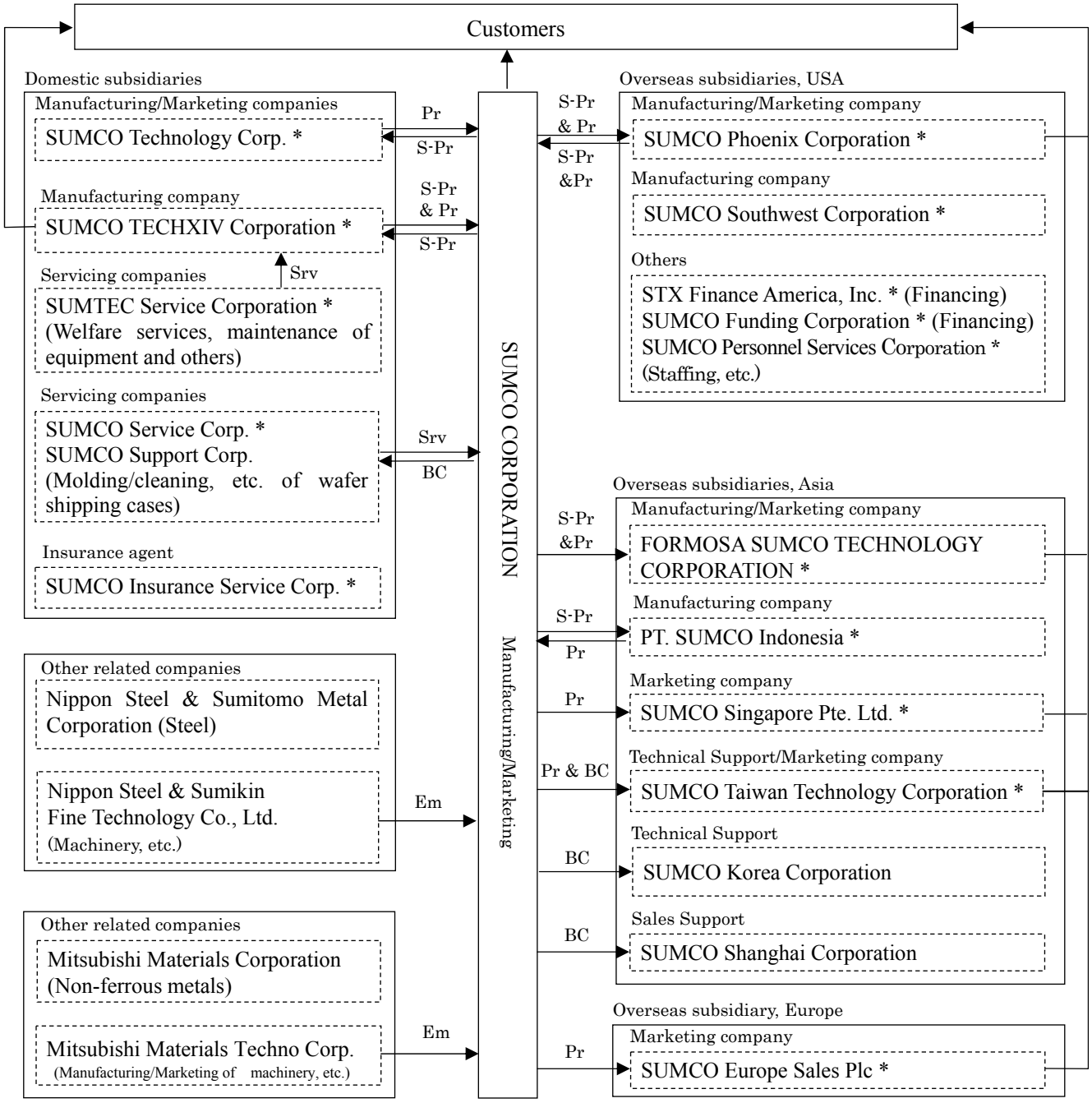
c. Significant changes in projections of future earnings and other developments caused chiefly by changes in economic conditions, which necessitate the implementation of certain accounting measures; or

2. Situation of the Corporate Group

SUMCO has seven domestic subsidiaries (five consolidated and two unconsolidated), twelve overseas subsidiaries (ten consolidated and two unconsolidated). Two other companies related to SUMCO are Nippon Steel & Sumitomo Metal Corporation and Mitsubishi Materials Corporation. SUMCO belongs to each group of those two companies. SUMCO and its subsidiaries (the "SUMCO Group") conduct business that relates solely to "Crystalline silicon".

(Business Structure)

The business structure of the SUMCO Group is as follows: ("*" indicates consolidated subsidiaries)



Pr=Product, S-Pr=Semi-finished product, Srv=Service, BC=Business consignment, RM=Raw material, Em=Equipment

(Note) In the fiscal year ended December 31, 2014, SUMCO Taiwan Technology Corporation became a consolidated company.

3. Management Policies

(1) Basic Policies of Corporate Management

The SUMCO Group strives to contribute to the development of society by ensuring a stable supply of high quality silicon wafers used in semiconductor devices, an objective it is committed to achieving through the maximum utilization of its product development and technological capabilities in a broad range of large-diameter and small-diameter silicon wafer manufacturing activities. In particular, the SUMCO Group is focused on constantly improving its technological capabilities in order to successfully respond to the extremely demanding quality and cost requirements of customers, and to thereby maintain and improve its position in the silicon wafer industry. These commitments are underscored in the mission statement of the SUMCO Group, which is "To be the world's No. 1 silicon wafer supplier by exceeding the expectation of our customers and stockholders, by recognizing the value of our employees and by being good neighbors in communities."

Guided by these basic policies, the SUMCO Group will continue to strengthen its business foundations, aim to achieve sustained growth, and respond to the expectations of its stakeholders.

(2) Target Management Indicator, Medium- to Long-term Management Strategies

Although demand for semiconductor silicon wafers is characterized by short-term changes, we expect the market to continue its medium- to long-term expansion in line with the growth of the semiconductor market. This expansion will be driven by 300 mm silicon wafers that meet the most advanced requirements for fineness. While the market for small-diameter wafers of 200 mm or less currently remains firm due to demand from automobile, communication, and other consumer applications, we expect this demand to gradually decline over the medium to long term as the industry shifts to 300 mm wafers.

In this environment, with regard to 300 mm wafers that are our main products, we will strive to achieve greater product differentiation by developing technologies and implementing investments aimed at meeting customer demands for higher levels of precision and quality that become increasingly challenging with the advancement of scaling technology. In responding to demand exceeding current production capacity, we will thoroughly examine economic rationality before taking any action. With regard to small-diameter wafers of 200 mm or less, we will maintain an appropriate production scale that is commensurate with the market environment. In addition to strengthening our cost competitiveness, we will pursue product differentiation by concentrating our management resources in power semiconductors and other areas projected to experience robust demand growth in the future.

Continued efforts will also be made in improving profitability by strengthening our cost competitiveness and by strengthening the products for power semiconductor whose demand will be expected to expand.

(3) Challenges Facing SUMCO Group

Following steady progress, the SUMCO Group's Business Reorganization Plan announced in February 2012 has now been successfully completed. The semiconductor silicon wafer market for fiscal year 2014 remained firm due to rapid growth of smartphone shipment, and also received a boost from demand for automobile, communication, and industrial applications.

In this environment, following the direction set by the SUMCO Vision, the SUMCO Group has strived to bolster its market presence by developing technologies that meet customers' demands for high levels of precision and product differentiation, while simultaneously reducing costs to lower its break-even point.

Due to dramatic changes in the market for polycrystalline silicon, the principal raw material for silicon wafers, a significant disparity has emerged between demand forecasts at time of conclusion of long-term purchase agreements and current outlook for consumption, as a result of which we are currently holding excess inventory. "Raw materials and supplies," which includes the inventory of raw materials, amounted to 122.0 billion yen as of the end of FY2014, up 6.3 billion yen from the previous year-end.

"Raw materials and supplies" is projected to increase to more than 130 billion yen by the end of FY2015. However, as long-term contracts are gradually expiring, the annual increase in inventory level is slowing down, and is projected to follow a downward trend after peaking around FY2016.

While inventory is expected to recover to appropriate levels over the medium- to long-terms, we are making various efforts to bring down the inventory of raw materials.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(millions of yen)

	End of FY2013 (Dec. 31, 2013)	End of FY2014 (Dec. 31, 2014)
Assets		
Current assets		
Cash and time deposits	31,363	42,016
Notes and accounts receivable – trade	30,806	42,522
Marketable securities	31,500	23,700
Finished products	14,750	15,204
Work in process	12,189	13,600
Raw materials and supplies	115,719	121,999
Deferred income tax assets	149	142
Other	7,791	6,609
Allowance for doubtful accounts	(11)	(8)
Total current assets	244,259	265,787
Non-current assets		
Property, plant and equipment		
Buildings and structures	193,796	195,468
Accumulated depreciation	(100,992)	(107,010)
Buildings and structures, net	92,804	88,457
Machinery, equipment and vehicles	707,616	722,521
Accumulated depreciation	(655,640)	(670,812)
Machinery, equipment and vehicles, net	51,976	51,709
Land	20,279	20,321
Construction in progress	8,133	7,710
Other	13,717	14,315
Accumulated depreciation	(13,116)	(13,488)
Other, net	600	826
Total property, plant and equipment	173,794	169,025
Intangible assets		
Goodwill	13,573	11,915
Software	2,090	2,569
Other	198	166
Total intangible assets	15,862	14,651
Investments and other assets		
Investment securities	119	81
Long-term advance payments	54,306	50,814
Long-term prepaid expenses	3,434	4,105
Deferred income tax assets	5,623	5,092
Other	1,519	1,396
Allowance for doubtful accounts	(396)	(385)
Total investments and other assets	64,606	61,105
Total non-current assets	254,263	244,783
Total assets	498,522	510,570

(millions of yen)

	End of FY2013 (Dec. 31, 2013)	End of FY2014 (Dec. 31, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	29,952	29,602
Short-term borrowings	89,110	65,673
Current portion of long-term lease obligations	3,727	954
Accrued income taxes	477	1,060
Reserve for bonuses	2,016	951
Notes and accounts payable – construction	1,259	2,766
Other	8,696	11,547
Total current liabilities	135,238	112,556
Long-term liabilities		
Long-term debt	143,841	151,658
Long-term lease obligations	2,159	2,749
Deferred income tax liabilities	895	1,537
Deferred income tax liabilities on revaluation reserve for land	1,559	1,558
Liability for retirement benefits	17,505	—
Net defined benefit liability	—	21,677
Other	2,486	2,107
Total long-term liabilities	168,447	181,288
Total liabilities	303,686	293,845
Equity		
Shareholders' equity		
Capital stock	136,607	136,607
Capital surplus	15,676	15,676
Retained earnings	15,924	30,946
Treasury stock	(9)	(10)
Total shareholders' equity	168,198	183,220
Accumulated other comprehensive income (loss)		
Net unrealized gain on available-for-sale securities	0	0
Deferred loss on derivatives under hedge accounting	—	(1)
Land revaluation surplus	2,671	2,670
Foreign currency translation adjustments	(2,675)	2,600
Postretirement liability adjustments for foreign consolidated subsidiaries	(143)	—
Remeasurements of defined benefit plans	—	(3,488)
Total accumulated other comprehensive income (loss)	(147)	1,781
Minority interests	26,785	31,723
Total equity	194,836	216,725
Total liabilities and equity	498,522	510,570

(2) Consolidated Statements of Operations and Consolidated Statement of Comprehensive Income

[1] Consolidated Statements of Operations

(millions of yen)

	FY2013 (Feb. 1, 2013– Dec. 31, 2013)	FY2014 (Jan. 1, 2014– Dec. 31, 2014)
Net sales	185,105	225,319
Cost of sales	147,965	175,485
Gross profit	37,140	49,833
Selling, general and administrative expenses	19,338	24,191
Operating income	17,801	25,642
Non-operating income		
Interest income	29	44
Dividend income	16	20
Gain on sales of materials	8	166
Foreign exchange gain	—	161
Insurance Income	41	88
Other	718	234
Total non-operating income	813	716
Non-operating expenses		
Interest expense	3,168	3,637
Foreign exchange loss	6,064	—
Loss on sales and retirement of non-current assets	278	493
Other	2,038	301
Total non-operating expenses	11,550	4,432
Ordinary income	7,065	21,926
Extraordinary loss		
Loss incurred from business restructuring	2,672	—
Total extraordinary loss	2,672	—
Income before income taxes and minority interests	4,392	21,926
Income taxes – current	395	995
Income taxes – deferred	1,715	1,584
Total income taxes	2,111	2,579
Net income before minority interests	2,281	19,347
Minority interests	1,566	3,057
Net income	715	16,289

[2] Consolidated Statement of Comprehensive Income

(millions of yen)

	FY2013 (Feb. 1, 2013– Dec. 31, 2013)	FY2014 (Jan. 1, 2014– Dec. 31, 2014)
Net income before minority interests	2,281	19,347
Other comprehensive income		
Net unrealized gain (loss) on available-for-sale securities	0	(0)
Deferred gain (loss) on derivatives under hedge accounting	3,431	(1)
Foreign currency translation adjustments	10,848	7,544
Postretirement liability adjustments for foreign consolidated subsidiaries	(279)	—
Remeasurements of defined benefit plans, net of tax	—	32
Total other comprehensive income	14,000	7,575
Comprehensive income	16,281	26,922
Total comprehensive income attributable to		
Owners of the parent	10,946	21,580
Minority interests	5,335	5,342

(3) Consolidated Statements of Changes in Equity

For the year ended December 31, 2013 (February 1, 2013 – December 31, 2013)

(millions of yen)

	Shareholder's equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholder's equity
Balance at beginning of period	136,607	15,676	16,849	(8)	169,124
Changes during period					
Dividends of surplus			(1,640)		(1,640)
Net income			715		715
Reversal of revaluation reserves for land			0		0
Increase due to purchase of treasury stock				(0)	(0)
Change of scope of consolidation					
Net changes of items other than shareholders' equity					
Total changes during of period	—	—	(925)	(0)	(925)
Balance at end of period	136,607	15,676	15,924	(9)	168,198

	Accumulated other comprehensive income							Minority interests	Total equity
	Net unrealized gain on available-for-sale securities	Deferred loss on derivative under hedge accounting	Land reservation surplus	Foreign currency transaction adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive loss		
Balance at beginning of period	0	(3,431)	2,671	(9,618)	—	—	(10,378)	21,579	180,325
Changes during period									
Dividends of surplus									(1,640)
Net income									715
Reversal of revaluation reserves for land			(0)				(0)		—
Increase due to purchase of treasury stock									(0)
Change of scope of consolidation									
Net changes of items other than shareholders' equity	0	3,431		6,943	(143)	—	10,231	5,205	15,436
Total changes during of period	0	3,431	(0)	6,943	(143)	—	10,230	5,205	14,510
Balance at end of period	0	—	2,671	(2,675)	(143)	—	(147)	26,785	194,836

For the year ended December 31, 2014 (January 1, 2014 – December 31, 2014)

(Millions of yen)

	Shareholder's equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	136,607	15,676	15,924	(9)	168,198
Changes during period					
Dividends of surplus			(1,287)		(1,287)
Net income			16,289		16,289
Reversal of revaluation reserves for land			0		0
Increase due to purchase of treasury stock				(0)	(0)
Change of scope of consolidation			19		19
Net changes of items other than shareholders' equity					
Total changes during of period	—	—	15,022	(0)	15,022
Balance at end of period	136,607	15,676	30,946	(10)	183,220

	Accumulated other comprehensive income							Minority interests	Total equity
	Net unrealized gain on available-for-sale securities	Deferred loss on derivative under hedge accounting	Land reservation surplus	Foreign currency transaction adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive loss		
Balance at beginning of period	0	—	2,671	(2,675)	(143)	—	(147)	26,785	194,836
Changes during period									
Dividends of surplus									(1,287)
Net income									16,289
Reversal of revaluation reserves for land			(0)				(0)		—
Increase due to purchase of treasury stock									(0)
Change of scope of consolidation									19
Net changes of items other than shareholders' equity	(0)	(1)		5,275	143	(3,488)	1,929	4,938	6,868
Total changes during of period	(0)	(1)	(0)	5,275	143	(3,488)	1,928	4,938	21,889
Balance at end of period	0	(1)	2,670	2,600	—	(3,488)	1,781	31,723	216,725

(4) Consolidated Statements of Cash Flows

(millions of yen)

	FY2013 (Feb. 1, 2013– Dec. 31, 2013)	FY2014 (Jan. 1, 2014– Dec. 31, 2014)
Operating activities:		
Income before income taxes and minority interests	4,392	21,926
Depreciation and amortization	21,024	19,471
Amortization of goodwill	1,657	1,657
Loss incurred from business restructuring	2,672	—
Decrease in allowance for doubtful accounts	(125)	(37)
Decrease in reserve for bonuses	(250)	(1,138)
Decrease in liabilities for retirement benefits	(537)	—
Increase in net defined benefit liability	—	796
Interest and dividend income	(46)	(65)
Interest expense	3,168	3,637
Net loss on sales and disposal of fixed assets	236	479
Increase (decrease) in notes and accounts receivable - trade	3,678	(10,323)
Increase in inventories	(27,055)	(6,505)
Decrease in other current assets	1,807	974
Decrease in notes and accounts payable, trade	(1,208)	(2,361)
Increase (decrease) in other current liabilities	(5,513)	2,655
Other, net	1,904	2,786
Subtotal	5,806	33,953
Interest and dividends received	46	66
Interest paid	(3,289)	(3,642)
Income taxes paid	(222)	(531)
Net cash provided by operating activities	2,341	29,845
Investing activities:		
Payments for purchases of fixed assets	(8,399)	(9,962)
Proceeds from sales of fixed assets	147	38
Purchase of investments in subsidiaries	—	(0)
Other, net	(483)	109
Net cash used in investing activities	(8,735)	(9,814)
Financing activities:		
Decrease in short-term borrowings, net	(39,769)	(25,181)
Proceeds from long-term debt	97,650	66,900
Repayments of long-term debt	(55,011)	(57,505)
Proceeds from sale and leaseback	3,029	1,504
Repayments of lease obligations	(8,640)	(3,767)
Payments for purchases of treasury stock	(0)	(0)
Dividends paid	(1,640)	(1,287)
Dividends paid to minority shareholders	(130)	(403)
Net cash used in financing activities	(4,513)	(19,741)
Foreign currency transaction adjustment on cash and cash equivalents	1,668	2,525
Net increase (decrease) in cash and cash equivalents	(9,240)	2,815
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	38
Cash and cash equivalents at beginning of year	72,103	62,863
Cash and cash equivalents at end of year	62,863	65,716

(5) Notes to Consolidated Financial Statements

(Notes regarding Going Concern Assumption)

Not applicable

(Changes in Accounting Policies)

(Adoption of Accounting Standard for Retirement Benefits)

SUMCO has adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012, hereinafter "Retirement Benefits Guidance") from the end of the fiscal year ended December 31,2014 (with the exception of the main clause of Article 35 of the Retirement Benefits Accounting Standard and the main clause of Article 67 of the Retirement Benefits Guidance). thus changing to the method of recording the difference between retirement benefit obligations and plan assets as net defined benefit liability, and has recorded actuarial difference and unrecognized past service cost as net defined benefit liability.

The Retirement Benefits Accounting Standard and Retirement Benefits Guidance have been applied in accordance with the transitional handling set forth in Article 37 of the Retirement Benefits Accounting Standard, and the impact of the change was an adjustment to remeasurements of defined benefit plans under accumulated other comprehensive income as of December 31, 2014.

As a result, as of December 31, 2014, SUMCO recorded net defined benefit liability of 3,361 million yen. In addition, accumulated other comprehensive income decreased by 3,361 million yen, and shareholders' equity per share decreased by 13.05 yen.

(Segment information)

a. Segment information

For the year ended December 31, 2013 (February 1, 2013 – December 31, 2013) and the year ended December 31, 2014 (January 1, 2014 – December 31, 2014)

Segment information is not provided because the SUMCO Group has only one segment which is "Crystalline silicon."

b. Related information

For the year ended December 31, 2013 (February 1, 2013 – December 31, 2013)

1. Information about products and services

Information about products and services is omitted since the sales of one segment is more than ninety percent of total sales.

2. Information about geographical areas

(1) Net sales

(millions of yen)

Japan	North America	Asia	Others	Total
49,356	29,595	90,522	15,630	185,105

(Note) Net sales are categorized by country or region based on customer location.

(2) Property, plant and equipment

(millions of yen)

Japan	Asia	Others	Total
123,885	45,347	4,560	173,794

3. Information about major customers

(millions of yen)

Customer name	Net sales	Relevant segment
Samsung Electronics Co., Ltd.	20,884	Crystalline silicon
Sumitomo Corporation	19,690	Crystalline silicon

For the year ended December 31, 2014 (January 1, 2014 – December 31, 2014)

1. Information about products and services
   Information about products and services is omitted since the sales of one segment is more than ninety percent of total sales.

2. Information about geographical areas
   (1) Net sales

(millions of yen)

Japan	North America	Asia	Others	Total
59,532	32,001	115,819	17,966	225,319

(Note) Net sales are categorized by country or region based on customer location.

(2) Property, plant and equipment

(millions of yen)

Japan	Asia	Others	Total
118,346	45,661	5,017	169,025

3. Information about major customers

(millions of yen)

Customer name	Net sales	Relevant segment
Sumitomo Corporation	31,382	Crystalline silicon

c. Information about impairment loss
For the year ended December 31, 2013 (February 1, 2013 – December 31, 2013) and the year ended December 31, 2014 (January 1, 2014 – December 31, 2014)

Not applicable

d. Information about amortization of goodwill
For the year ended December 31, 2013 (February 1, 2013 – December 31, 2013) and the year ended December 31, 2014 (January 1, 2014 – December 31, 2014)

Information about amortization of goodwill is omitted since the SUMCO Group has only one segment which is “Crystalline silicon.”

e. Information about negative goodwill
For the year ended December 31, 2013 (February 1, 2013 – December 31, 2013)

Not applicable

For the year ended December 31, 2014 (January 1, 2014 – December 31, 2014)

Information about negative goodwill is omitted since the SUMCO Group has only one segment which is “Crystalline silicon.”

(Per-share information)

Year ended December 31, 2013 (Feb. 1, 2013 – Dec. 31, 2013)		Year ended December 31, 2014 (Jan. 1, 2014 – Dec. 31, 2014)	
Equity per share	473.42 yen	Equity per share	538.81 yen
Net loss per share	(1.22) yen	Net income per share	58.84 yen
Diluted net income per share	―	Diluted net income per share	53.18 yen

(Note) 1. Diluted net income per share for year ended December 31, 2013 is not described since a net loss was posted.

2. The following is the basis for calculation of net income (loss) per share and diluted net income per share.

	Year ended Dec. 31, 2013 (Feb. 1, 2013 – Dec. 31, 2013)	Year ended Dec. 31, 2014 (Jan. 1, 2014 – Dec. 31, 2014)
Net income (loss) per share		
Net income (millions of yen)	715	16,289
Amount not belonging to common shareholders (millions of yen)	1,029	1,125
(Preferred divided (millions of yen))	(1,029)	(1,125)
Net income (loss) for common stock (millions of yen)	(314)	15,164
Average number of shares during the period (shares)	257,746,136	257,745,816
Diluted net income per share		
Adjustment of net income (millions of yen)	―	1,125
(Preferred dividend (millions of yen))	(―)	(1,125)
Increase of common share (shares)	―	48,569,886
(Preferred stock (shares))	(―)	(48,569,886)
Summary of residual securities not included in calculation of current net income per share after dilution due to lack of dilutive effect	Class A shares (450 shares)	―

(Subsequent event)

Not applicable

5. Others

(1) Changes in Officers

① Changes of Representative Directors

Not applicable

② Other Changes

・Director to be newly nominated

(New Position)	(Name)	(Current Position)
Director	Fumio Inoue	Managing Executive Officer General Manager of Finance Department

・Outside Director to be newly nominated

(New Position)	(Name)	(Current Position)
Outside Director	Shiro Mokudai	General Manager, Silicon Division, Electronic Materials & Components Company, Mitsubishi Materials Corporation

・Members of the Board of Directors to retire

(Current Position)	(Name)
Director	Yoichi Tsuchiya
Outside Director	Hirotake Ohta

・Corporate Auditor to be newly nominated

(New Position)	(Name)	(Current Position)
Auditor	Hisashi Katahama	Director, Technology

・Outside Corporate Auditor to be newly nominated

(New Position)	(Name)	(Current Position)
Outside Auditor	Manabu Uehara	General Manager, Corporate Planning Division General Manager, Group Companies Planning Division, Nippon Steel & Sumitomo Metal Corporation

・Outside Corporate Auditor to retire

(Current Position)	(Name)
Corporate Auditor	Hidemasa Hosaka
Outside Corporate Auditors	Kitaro Yoshida

③ Scheduled Date of Changes

March 25, 2015