Capital Increase and Restructuring Plan, and New Medium-Term Management Strategy

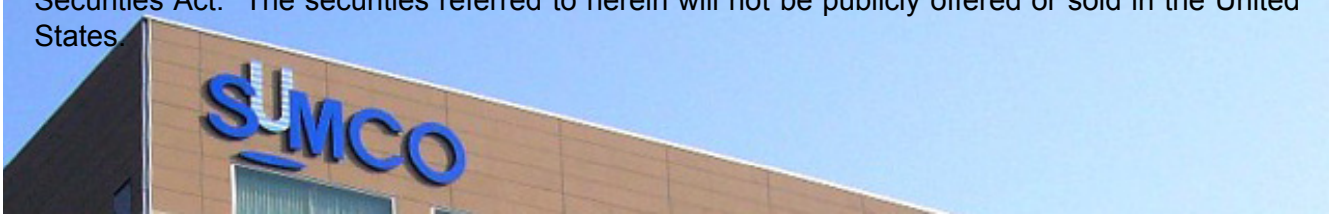
March 3, 2015

Disclaimers

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Forecasts, estimates, outlooks, and other forward-looking information and statements contained herein have been prepared based on the information available to the Company as of today and on certain premises or assumptions (including those based on our subjective judgments). Changes in the domestic and global economic situation, semiconductor market situation, foreign exchange rate trends, and other risk factors may cause actual performance and results to differ substantially from those expressed or implied in any forward-looking information and statements herein.

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Executive Summary



- **Based on sustainable earnings growth, aim to secure profitability even amid unfavorable business conditions, and during favorable periods, achieve ROE that is considerably higher than FY2014 ROE**
- **Aim to strengthen our financial condition further, with a target of achieving a shareholders' equity ratio of over 50% and a D/E ratio of less than 0.5x**
- **Aim for flexible and proactive shareholder returns in accordance with future income conditions**

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I. Capital Increase and Restructuring Plan

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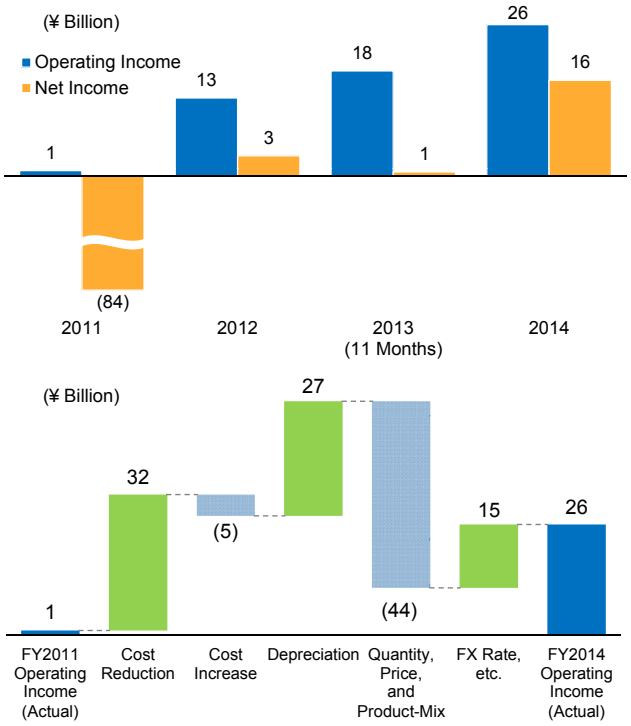
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Key Measures Executed under Business Reorganization Plan

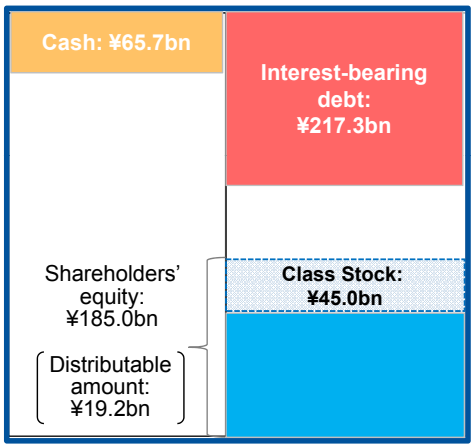
Key Measures	Results
■ Solar Wafer Business — Withdrew from Solar Wafer Business by January 2012	■ Executed as planned (January 2012)
■ 300mm — Shutdown 300mm line at Nagasaki plant / Cost Reduction	■ Cancelled complete shutdown in response to EW demand increase (January 2013)
■ 200m — Shutdown of Ikuno plant / Cost Reduction	■ Executed as planned (July 2013)
■ 150mm and less — Shutdown 150mm line at Imari plant / Cost Reduction	■ Executed as planned (July 2013)
■ Personnel Plan — Reduce 15% of consolidated employees (approx. 1,300 workers)	■ Executed as planned (July 2013)

Our Improved Margin Structure and Current Balance Sheet Status

Results of Cost Reduction and Efficiency Measures



Balance Sheet Status (as of December 31, 2014)[2]



Total assets: ¥510.6bn

	Current	Post-Class Stock Adjustment[1]
Shareholders' Equity Ratio	36%	30%
D/E Ratio	1.2x	1.6x

[1] Calculated assuming the amount remaining after ¥45.0bn in Class Stock is subtracted from ¥185.0bn in shareholder's equity is treated as shareholder's equity.
[2] All numbers relating to balance sheet are consolidated numbers, except for distributable amounts that are non-consolidated numbers

Capital Increase and Restructuring Plan - Objectives

SUMCO has steadily implemented various measures included in the Business Reorganization Plan and achieved an industry-leading level of profitability. However, because the overall business environment surrounding the Company was weaker than anticipated at the time of formulation of the Business Reorganization Plan, the Company has not been able to improve its balance sheet as anticipated

The put option with respect to Class A Stock issued upon the formulation of Business Reorganization Plan, the consideration for which is cash and Class B Stock, will become exercisable from May this year. Therefore, it is expected that the shareholders of Class Stock will exercise their put option from time to time, and capital and cash will be reduced thereby

On the other hand, SUMCO recognizes a spread of the growth opportunity, given the recovery in the business environment since last year, the tightening of demand/supply and the increasing demand for high-precision products which is one of the Company's strengths

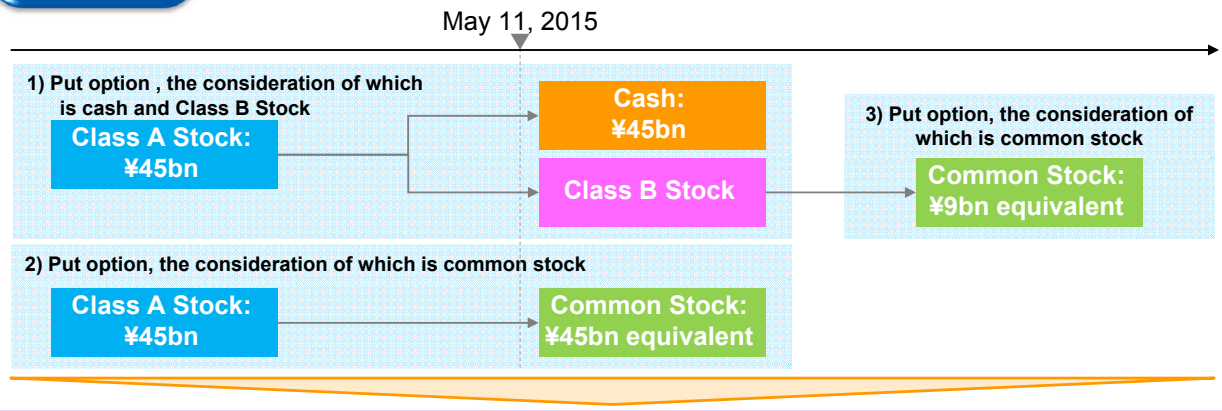
The Company has determined that exchanging Class Stock, whose put option is anticipated to be exercised from time to time, for common stock, which is a more stable form of capital, and further infusion of capital will help to (i) strengthen its financial base and establish the ability to make disciplined capital expenditures and (ii) establish a basis for realizing flexible shareholder returns

SUMCO will pursue medium-to-long-term earnings growth and enhancement of shareholder value through steady implementation of its New Medium-Term Management Strategy

Overview of Class A Stock and Class B Stock

Overview of Outstanding Class Stock

- Principal amount: ¥45bn
- Shareholders: Nippon Steel & Sumitomo Metal Corporation ("NSSMC"), Mitsubishi Materials Corporation ("MMC"), Japan Industrial Solutions Investment Limited Partnership I ("JIS")
- Consideration of put option of Class A Stock, exercisable from May 11, 2015:
  - 1) Cash and Class B Stock (20% of the principal amount of Class A Stock); or
  - 2) Common stock worth the principal amount of Class A Stock
- Put option of Class B Stock:
  - 3) Common stock worth the value of Class B Stock



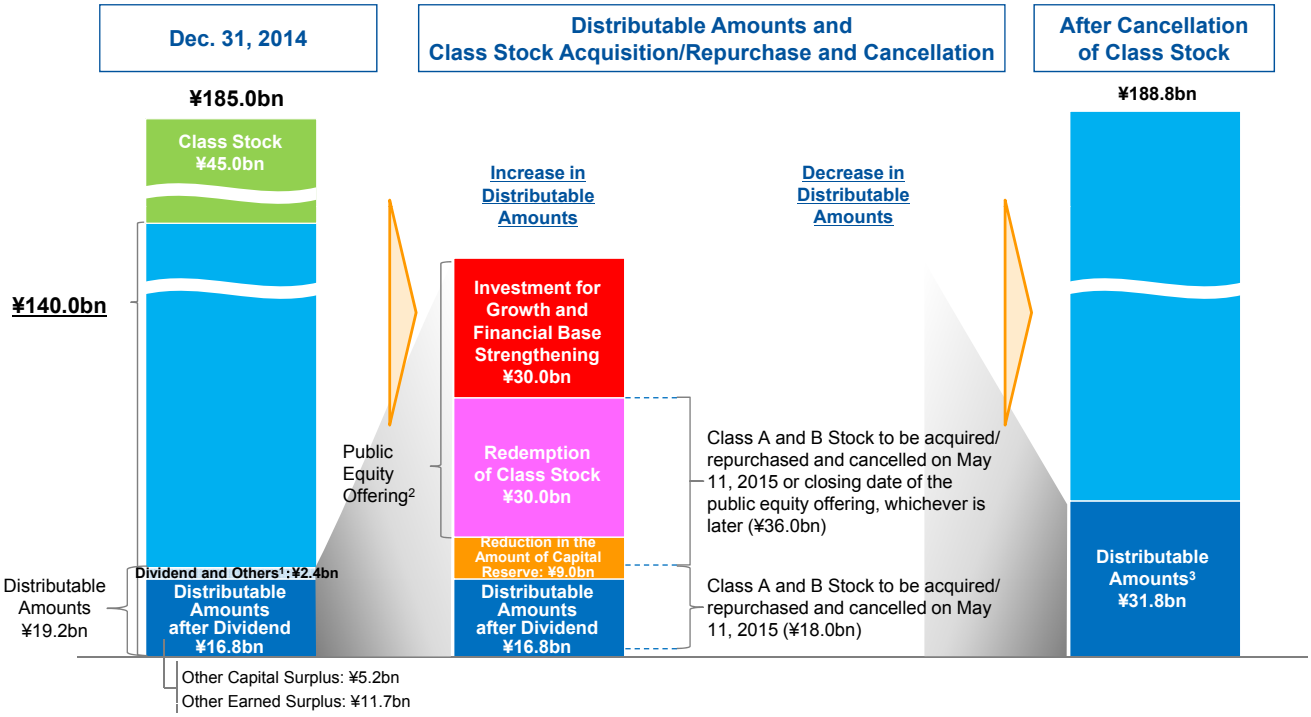
In accordance with Memorandum of Understanding, SUMCO will acquire/repurchase and cancel all of Class A Stock and Class B Stock to avoid the dilution of common stock, which could happen when Class Stock is converted to common stock

Note: The overview of Class Stock above only describes key points. For details, please refer to Slide P30

Significance of Implementing Capital Increase and Restructuring Plan

Elimination of uncertainty regarding potential exercise of put option of Class A Stock (the consideration is cash and Class B Stock)	■ The ongoing need to be prepared for potential cash redemption of ¥45.0 billion would place large constraints on our financial strategy going forward ■ Cancelling all Class A Stock and strengthening our financial base will enable SUMCO to achieve sustainable earnings growth and make timely and disciplined strategic investments under the New Medium-Term Management Strategy
Elimination of uncertainty regarding potential exercise of put option of Class A Stock (the consideration is common stock)	■ Eliminate potential dilution, equivalent to a maximum of approximately 25% of outstanding shares, upon the exercise of the put option attached to Class A Stock
Elimination of uncertainty regarding potential exercise of put option of Class B Stock (the consideration is common stock)	■ Eliminate concerns regarding potential dilution from issuance of common stock equivalent to ¥9.0 billion which could be delivered upon the exercise of put options attached to Class B Stock ■ Avoid share price impact from sale of common stock which is anticipated upon the conversion from Class B Stock to secure economic returns
Provide appropriate shareholder returns	■ Reduce preferred dividend obligation (approximately ¥1.13 billion per annum) by acquiring all outstanding Class Stock ■ Enhance shareholder return for common stock through acquisition/repurchase and cancellation of all outstanding Class Stock ■ Increase dividend per share to ¥4 for FY2014

Capital Increase and Restructuring Plan - Transition of Shareholders' Equity



Note: All numbers relating to balance sheet are consolidated numbers, except for distributable amounts that are non-consolidated numbers

[1] Dividend and others include dividend for common stock (¥1.03bn), dividend for Class Stock (¥1.125bn) and reserve of legal retained earnings for the two dividends (¥0.216bn)

[2] ¥60.0bn is based on the amount that is scheduled to be issued as stated on the shelf registration statement. The figure may change due to market conditions and other factors

[3] Distributable Amounts (¥31.8bn) = Distributable amounts after dividend ¥16.8bn + Reduction in the amount of capital reserve (¥9.0bn) + Public Equity Offering (¥60bn) – acquisition price of Class A Stock and Class B Stock (¥36.0bn) (to be acquired on May 11, 2015 or closing date of the public equity offering, whichever later) – acquisition price of Class A Stock and Class B Stock (¥18.0bn) (to be acquired on May 11, 2015). Accrued dividend amount after the end of December 2014 is not considered

Overview of Capital Increase and Restructuring: Memorandum of Understanding Concerning Treatment of Class Stock

Agreed Terms with Class Shareholders

- The shareholders of Class Stock shall in principle not convert either Class A Stock or Class B Stock into common stock
- The Company will acquire and cancel 150 shares of Class A Stock (worth ¥15bn) and 150 shares of Class B Stock (worth ¥3bn) within the distributable amount on the B/S as of December 2014
- The Company will conduct a public equity offering in Japan based on the shelf registration statement on March 3. On the later of the closing date or May 11, 2015, the Company will acquire and cancel 300 shares of Class A Stock (worth ¥30bn) and 300 shares of Class B Stock (worth ¥6bn)
- The expiry date for the MOU shall be March 10, 2016, the same as the shelf registration

Matters for Resolution at General Shareholders Meeting

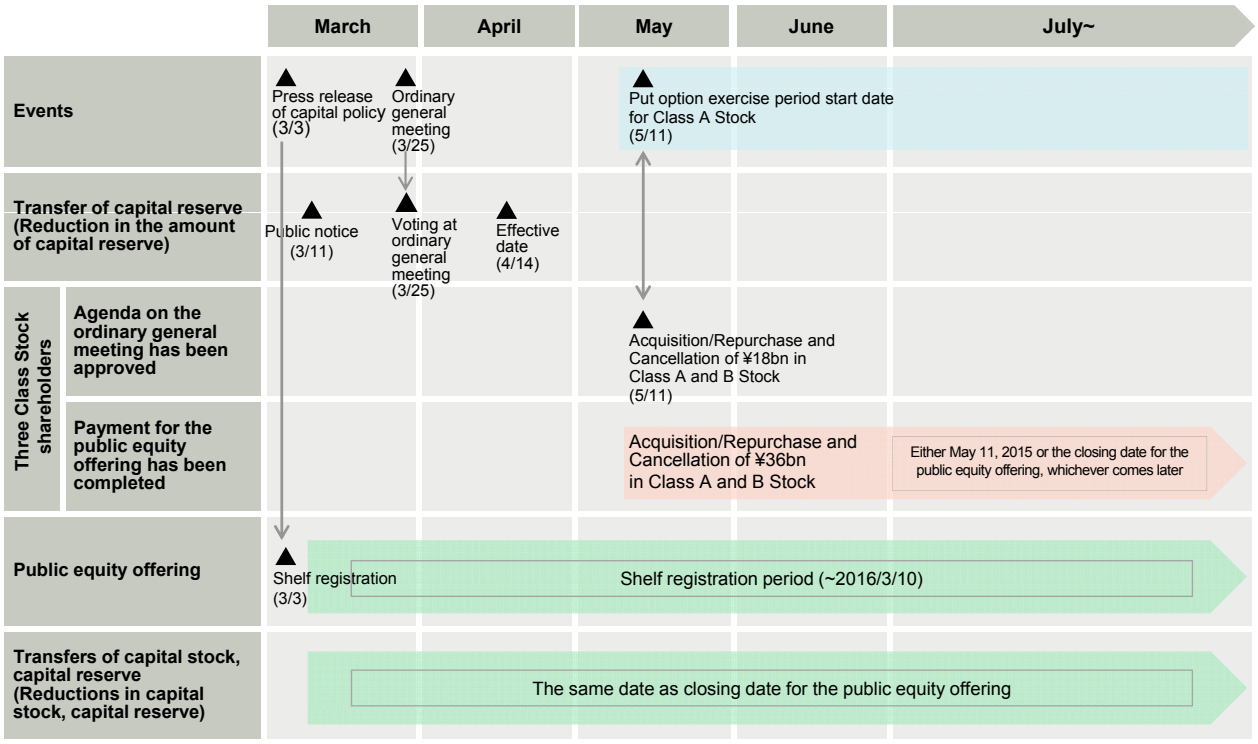
- To conduct the agreements above, the Company will submit the following agenda items at the ordinary general meeting of shareholders scheduled on March 25, 2015
  - — To reduce capital reserve (worth ¥9bn) to secure distributable amount to be applied to acquisition of Class B Stock
  - — To set up a stock repurchase program to acquire Class B Stock (to repurchase up to 450 shares of Class B Stock for ¥9bn, with an acquisition period ending March 10, 2016)

Note: The Class A shareholders are to exercise their put options, the consideration for which is cash and Class B Stock. After immediately repurchasing the Class B Stock, the Company will promptly cancel both Class A and Class B Stock.

Secondary Offering by Major Shareholders

- Upon the issuance of new shares based on the shelf registration statement dated on March 3, NSSMC and MMC, the two major shareholders of the Company, are scheduled to sell a portion of their respective holdings of the common stock of the Company (the same number of shares are to be sold by both companies) in a secondary offering
- The number of shares of common stock to be sold under and the scale of the secondary offering by the two major shareholders will be determined based on factors including market conditions and the extent of dilution of the shareholding ratio of both companies as a result of the offering
  - The details regarding the time, method of issuance (secondary offering), terms and conditions of issuance (secondary offering), the aggregate issue (selling) amount and other matters of the primary offering and the secondary offering have not been determined
- There will be no change in the Company's status as an equity-method affiliate of the two major shareholders for the time being following the secondary offering by the two major shareholders

Process Overview of Capital Increase and Restructuring Plan



Note: The Company plans to conduct a public equity offering in Japan during the period for the shelf registration. However, the details regarding the issue date, method of issuance, terms and conditions of issuance and the aggregate offering size have not yet been determined, and the Company will determine such matters by comprehensively taking into consideration market trends and other relevant factors.

I. Capital Increase and Restructuring Plan

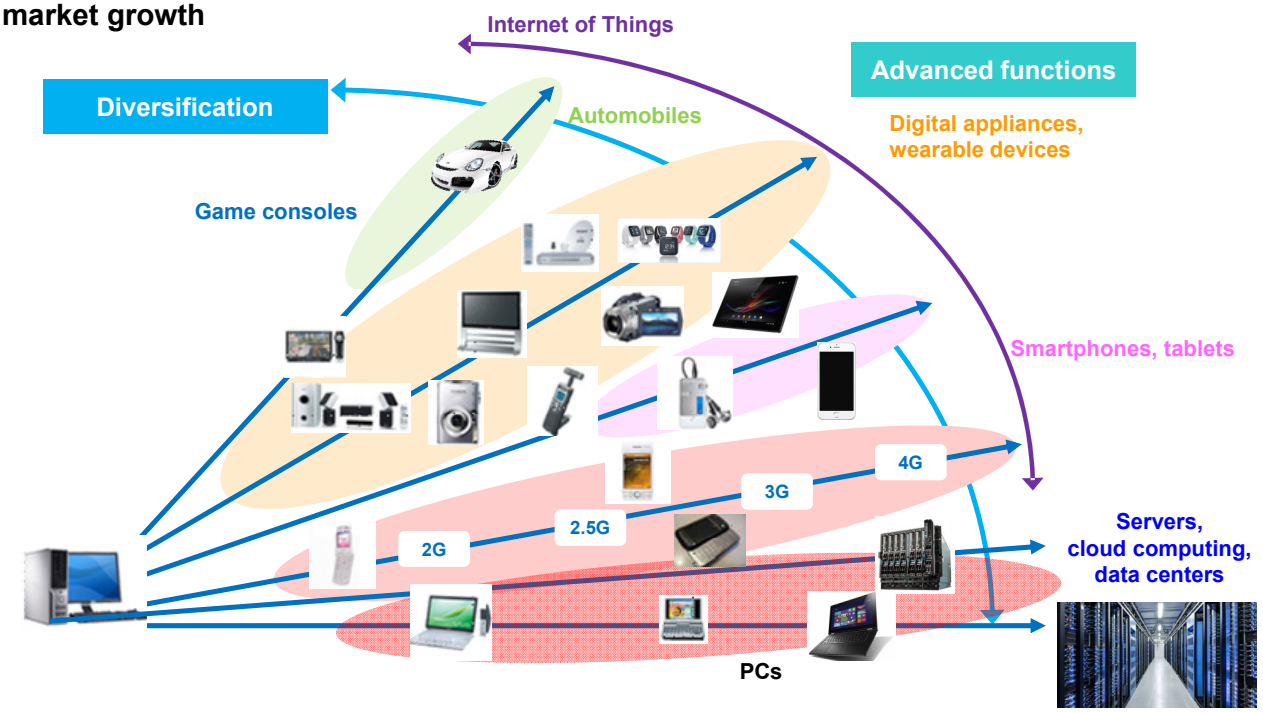
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Market Environment: Diverse Applications Fuel Robust Growth of Semiconductor Device Market

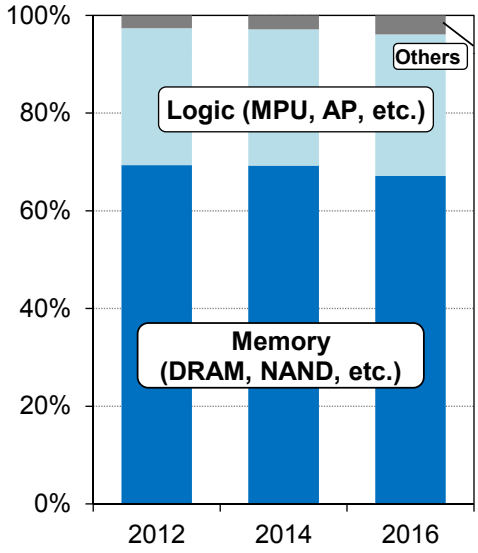
- Further diversification and innovative applications continue to fuel semiconductor market growth



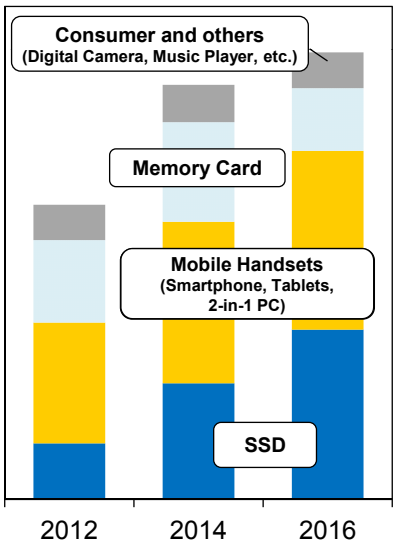
Market Environment: Growth Drivers for 300 mm Wafers

- Applications of 300mm wafers are ~70% memory and ~30% processors
- 300mm wafers for NAND usage are driven by mobile handsets and datacenter SSDs

By devices



By NAND Usage

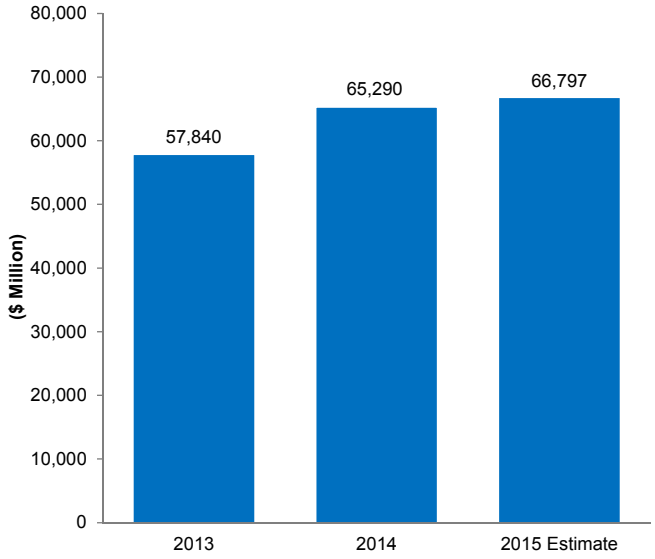


Source: SUMCO estimates
Note: Excluding test wafers.

Market Environment: Capital Spending by Device Manufacturers increasing since 2014

- Aggressive capital spending on leading-edge processes in both logic and memory
- For memory, smartphones and servers drive demand, leading to capital spending for capacity expansion

Worldwide Semiconductor Capital Spending[1]



[1] Source: Gartner Research "Forecast: Semiconductor Capital Spending, Worldwide, 4Q14 Update" (As of December 18, 2014). Graphs generated by SUMCO with Gartner Research Data

Recent Trends by Major Players

- **Samsung**: Capital Spending is expected to be larger in 2015 than 2014. 300mm/14nm capacity expansion for logic, and for DRAM new investments for capacity as well as investments for scaling technology for 20nm
- **TSMC**: Maximum capital spending of $12bn. Capacity expansion of 300mm/16nm and investments in 10nm generation will account for more than 80% of its capital spending
- **SK Hynix**: Planned capital spending of W4.8~4.9 tn (approximately ¥440~450bn); approximately half of which will be for 300mm/22nm DRAM fab
- **Toshiba:** Maintain capital spending of ¥200bn for FY2015. Predominant portions are allocated for memory investment. New facility for next generation 3D-NAND has commenced
- **UMC**: $1.8bn for semiconductor capital spending, up 30% y/y in 2015. 89% for 300mm, deployed mainly for expanding 28nm generation

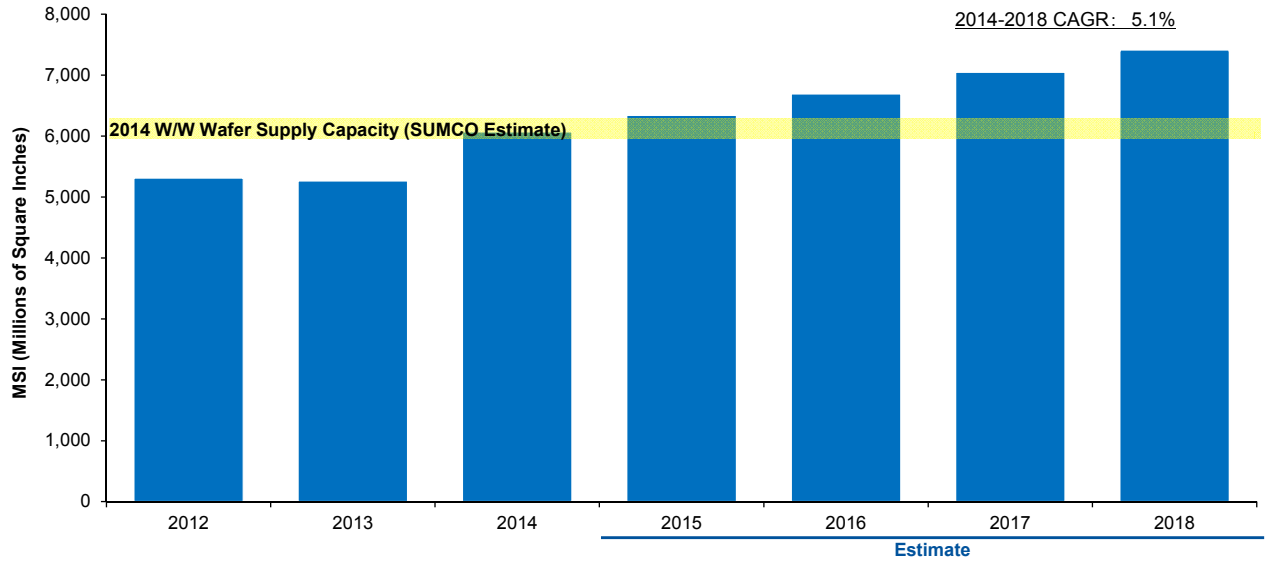
Source: Publically Available Information

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Market Environment: 300mm Wafer Demand Trends

- Wafer market shows strong growth backed by continuing device market expansion
- Tightening supply-demand condition lays the groundwork for price improvements

Global 300mm Wafer Demand Forecasts[1]

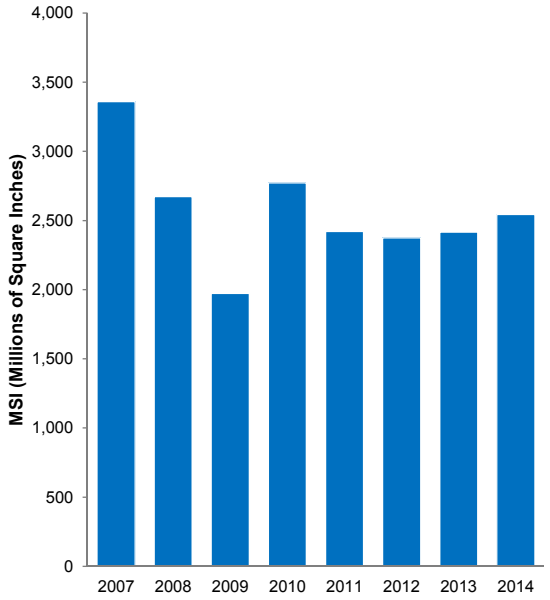


[1] Source: Gartner Research "Forecast: Semiconductor Silicon Wafers, Worldwide, 4Q14 Update" (As of December 18, 2014). Graphs generated by SUMCO with Gartner Research Data

Market Environment: 200mm Wafer Demand Trends

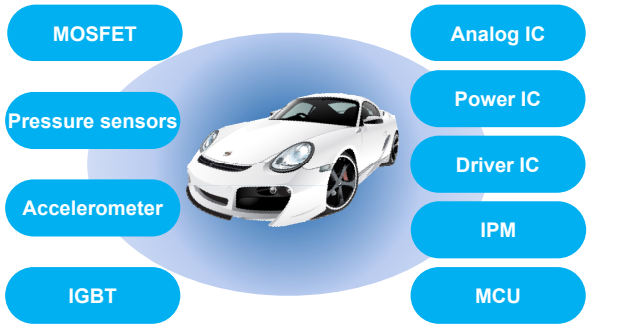
- Decreasing demand for 200mm wafers showing signs of leveling off and beginning to increase
- Recent demand driven by devices for automotive applications and smartphones
- Focusing on power IC/CIS realm, where our technical advantage can be leveraged most

Global 200mm Wafer Demand Forecasts

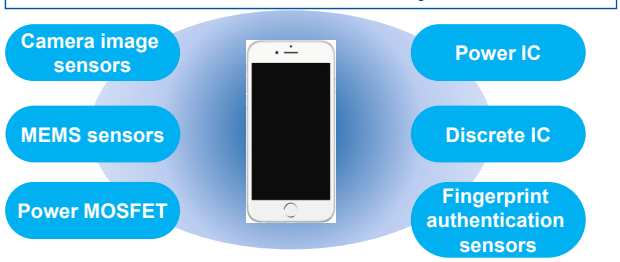


Source: SUMCO estimates

Increase in Semiconductors for Automotive Uses

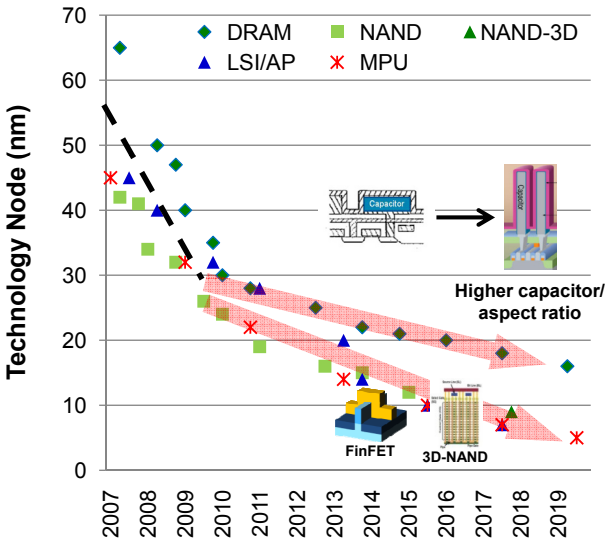


Devices Used in Smartphones

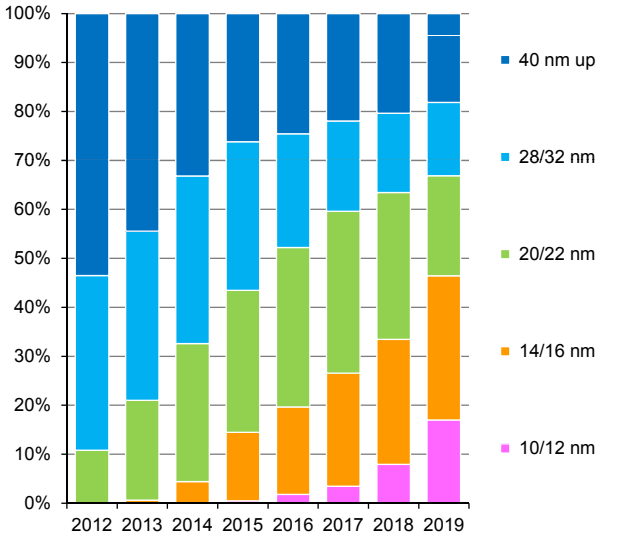


Market Environment: Advancement in Scaling of 300mm Wafer

Technology Node Transitions of 300mm Wafer



300mm Wafer Demand by Technology Node



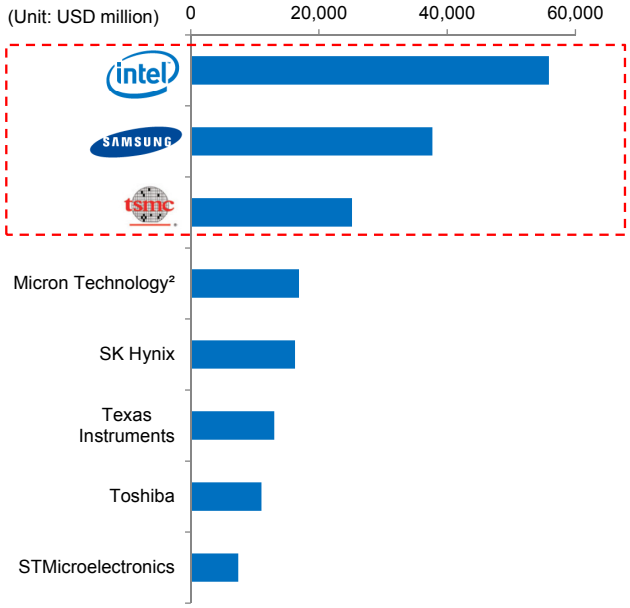
(1) Developing advanced semiconductors is becoming more time consuming, but scaling will continue.
(2) Requirements for high-precision wafers are becoming increasingly high and tolerance margins are narrowing.
(3) SUMCO continues to invest in R&D and mass-production technologies to refine its technologies related to controlling minute crystal flaws, processing high-precision wafers, growing epitaxial films with superior uniformity, and controlling the film-growth process.

Source: Industry Research & Statistics, SEMI (Christian Gregor Dieseldorff and Clark Tseng, June 30, 2014) and SUMCO estimates

Our Strengths: Advancement in Scaling – a Tailwind for SUMCO

- **SUMCO's strength lies in its collaboration with customers on higher-precision wafers based on constructive relationship**
- **Only a limited number of wafer suppliers are capable of supporting such products**

Semiconductor Revenue of Major IDM/foundries (2014)[1]



High Recognition from Our Customers

Supplier Continuous Quality Improvement Award

- **Awarded for the 12th consecutive year and 13th time overall, out of more than 10,000 suppliers (First among all global suppliers)**

Samsung Award of Honor (Special Award) Best Partner Award

- **First silicon maker to receive the Samsung Prize (Special Prize) in 2012, also receiving the Best Partner Award in 2013 for our outstanding contribution to business development**

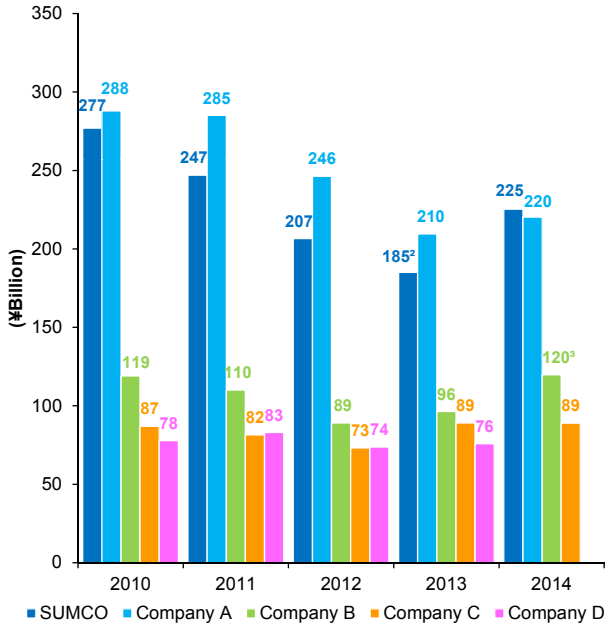
Excellent Quality Technical Support Award

- **The first silicon wafer maker to win a Technical Support award from a major TSMC plant**

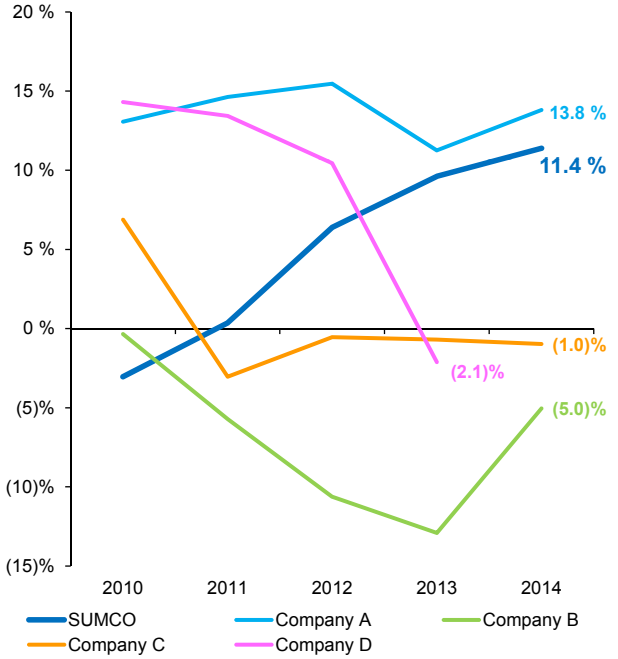
Source: Company disclosure
Note: Sales numbers of Samsung and Toshiba only include semiconductor business segment
[1] Average exchange rates for January to December in 2014 were used to translate results in foreign currencies into US dollar ($1=W1,053.6, $1=TW $303 and $1=¥105.8)
[2] Sales number of Micron Technology is twelve-month sales from November 29, 2013 to December 4th, 2014

Our Strengths: An Industry Leading Position
Customer Base and Profitability

Net Sales Trends by Key Players[1,2]



Operating Margin Trends by Key Players[1]

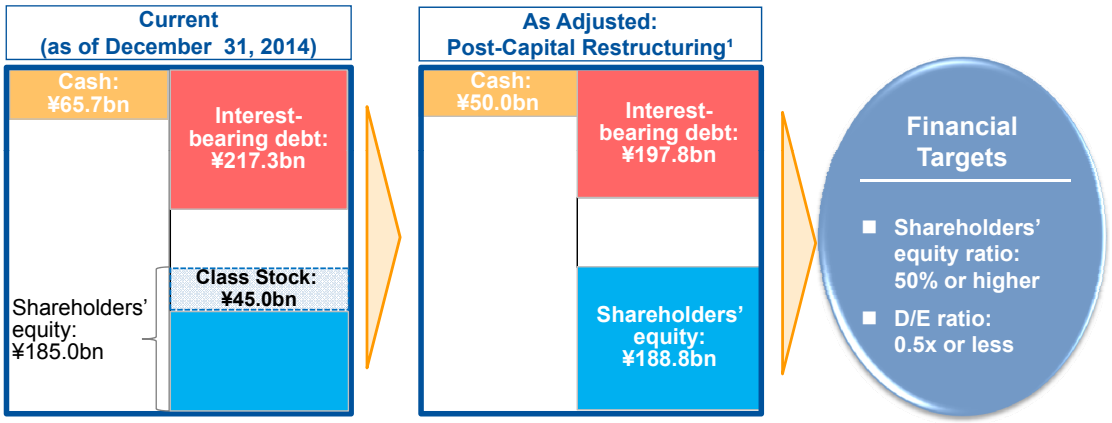


Source: Company disclosure
Note: Net sales and operating margin of the semiconductor silicon wafer business of each company. Figures as of the end of 2014 including some preliminary results.
1. Average exchange rates for January to December each year were used to translate results in foreign currencies into yen.
(Average exchange rates for 2010, 2011, 2012, 2013 and 2014: $1=¥87.6, ¥79.7, ¥79.8, ¥97.6 and ¥105.8; 1 Euro=¥116.2, ¥110.0, ¥102.6, ¥129.7 and ¥140.4, 1 won=¥0.08, ¥0.07, ¥0.07, ¥0.09 and ¥0.10)
2. Due to a change in our reporting period, SUMCO's FY2013 results are for the 11-month period ended December 31, 2013

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Financial strategy: Strengthening Our Balance Sheet

- **Through the Capital Increase and Restructuring Plan, we aim to build a financial base that will enable disciplined growth investment and flexible return to shareholders. We will further strengthen our financial health by continuing to accumulate our excess profits**



	Current	Post-Class Stock Adjustment[1]	Post-Capital Restructuring
Shareholders' Equity Ratio	36%	30%	38%
D/E Ratio	1.2x	1.6x	1.0x

[1] ¥54.0bn (Class A/B Stock) subtracted from cash and shareholders' equity on the balance sheet as of December 31, 2014. ¥60.0bn added to cash and shareholders' equity on the balance sheet after Class Stock adjustment. (¥60.0bn is only indicative up to the amount that is scheduled to be issued as stated on the shelf registration statement. The figure may change due to market conditions and other factors.) Assumes interest-bearing debt will be repaid until cash reaches ¥50.0bn (minimum cash on hand of ¥20.0bn + ¥30.0bn in reserves for growth investment and strengthening of financial condition). These figures take into account the following items expected as of December 31, 2014: common stock dividends (¥1.03bn); Class Stock dividends (¥1.125bn); and transfer of legal retained earnings (¥0.216bn)

[2] Calculated assuming the amount remaining after ¥45.0bn in Class Stock is subtracted from ¥185.0bn in shareholder's equity is treated as shareholder's equity

Business and Investment Strategy

	Strategic Measures
Customer Strategy	■ Continue to obtain new business opportunities by leveraging our differentiated products developed through collaboration with customers in leading-edge products, utilizing SUMCO's advanced wafer technology, as well as its long-term constructive customer relationships ■ Establish stable business foundation by deepening relationships with a broad customer base, creating resiliency to performance of individual customers
Pricing Strategy	■ Tightening in market supply and demand gap indicates signs of inflection point in pricing ■ As demand for wafers increases, we aim to improve / normalize price to a level where deploying additional capital for capacity expansion becomes economically rationale ■ As excessive price improvement could induce competitors to increase their capital expenditures beyond justified levels, will aspire to maintain appropriate price levels in conjunction with proper implementation of our capital expenditures strategy
Product Development Strategy	■ Continue to focus on areas in which SUMCO's technological competitive advantage could be leveraged — High precision 300mm EW / PW, etc. — 200mm wafers for Power IC/CIS usage, etc.

Business and Investment Strategy

	Strategic Measures
Capital Expenditures Strategy	■ Capital Expenditures Phase 1 (pre-full scale price improvement): Primarily focus on capital expenditures for high-precision wafers with no substantial capacity expansion — Adoption of next-generation high-precision compatible development equipment for 300mm products, etc. ■ Capital Expenditures Phase 2 (post- full scale price improvement): Establish an even more solid position through disciplined capital expenditures for capacity expansion — Subject to sufficient price improvements and price normalization, implement timely and disciplined capital expenditures, while paying due attention to maintaining an appropriate supply and demand balance in the industry — After price improvements are achieved, implement capital expenditures in a flexible manner, gradually pursuing high-efficiency investments in debottlenecking — Make investments to increase production capacity in response to customers' needs, but only where sufficient return on investment is expected
Cost Strategy	■ Realized a streamlined and resilient cost structure through executing large-scale structural reforms under Business Reorganization Plan ■ Absorb increasing depreciation expenses as much as possible by rationalizing costs through ongoing Kaizen efforts

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Summary



- **Based on sustainable earnings growth, aim to secure profitability even amid unfavorable business conditions, and during favorable periods, achieve ROE that is considerably higher than FY2014 ROE**
- **Aim to strengthen our financial condition further, with a target of achieving a shareholders' equity ratio of over 50% and a D/E ratio of less than 0.5x**
- **Aim for flexible and proactive shareholder returns in accordance with future income conditions**

Reference: Overview of Class A Stock and Class B Stock

Class A Stock	
No. of issued shares	450
Amount paid per share	¥0.1 billion per share (Total amount paid: ¥45.0 billion)
Dividend of surplus	・Preferred dividend (Annual dividend rate: 2.5%) ・Non-participating/Accumulated dividend
Distribution of residual assets	・Preferred distribution ・Amount equivalent to paid-in amount (+ accrued dividend amount, etc.)
Voting rights	None
Supplementary items	・Put option the consideration for which is cash and Class B Stock (1) ・Put option the consideration for which is common stock (2) ・Call option the consideration for which is cash (3)

Class B Stock	
No. of authorized shares	450 *When "put option in exchange for cash and Class B Stock" is exercised, 1 Class A share is exchanged for 1 Class B share
Dividend of surplus	・Same order of preference as common stock ・Non-participating/Non-accumulated dividend
Distribution of residual assets	・Same order of preference as common stock ・¥20 million per share
Voting rights	None
Supplementary items	・Put option, the consideration of which is common stock (4) ・Call option, the consideration of which is cash (5)

	Options	Description	Execution period
Class A	(1) Put option, the consideration of which is cash and Class B Stock	Cash amount: Amount equivalent to Class A paid-in amount (+ accrued dividend amount, etc.) Number of Class B Stock: 1 per Class A Stock	From May 11, 2015
	(2) Put option, the consideration of which is common stock	No. of common stock: Amount equivalent to Class A paid-in amount (+ accrued dividend amount, etc.) divided by acquisition price (VWAP average of the Company's common stock for the 20 consecutive trading days preceding the put date (minimum acquisition price: ¥700))	From May 11, 2015
	(3) Call option, the consideration of which is cash	Cash amount: Amount equivalent to Class A paid-in amount (+ accrued dividend amount, etc.)	From May 11, 2016
Class B	(4) Put option, the consideration of which is common stock	No. of common stock: ¥20 million per Class B stock divided by acquisition price (VWAP average of the Company's common stock for the 12 consecutive trading days preceding the put date (minimum acquisition price: ¥200))	From May 11, 2015
	(5) Call option, the consideration of which is cash	Cash amount: ¥20 million per Class B stock	From May 11, 2016