Brief Statement on Consolidated Financial Results for Fiscal Year 2015 (Ended December 31, 2015) [Japanese Accounting Standards]

February 9, 2016

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Scheduled date of ordinary general meeting of shareholders: March 29, 2016
Scheduled date of commencement of dividend payment: March 30, 2016
Scheduled date of filing of annual security report: March 29, 2016
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, 2015 (January 1, 2015 - December 31, 2015)

(1) Consolidated Business Results (Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)
Year ended Dec. 31, 2015	236,826	5.1	29,447	14.8	25,538	16.5	19,747	21.2
Year ended Dec. 31, 2014	225,319	—	25,642	—	21,926	—	16,289	—

(Note) Comprehensive income Year ended Dec. 31, 2015: 21,763 million yen ((19.2)%)
Year ended Dec. 31, 2014: 26,922 million yen (— %)

	Net income per share	Diluted net income per share	Net income / Shareholders' equity	Ordinary income / Total assets	Operating income / Net sales
	(yen)	(yen)	(%)	(%)	(%)
Year ended Dec. 31, 2015	70.06	67.77	10.0	5.1	12.4
Year ended Dec. 31, 2014	58.84	53.18	9.2	4.3	11.4

(Reference) Equity in earnings of affiliates Year ended Dec. 31, 2015: — million yen
Year ended Dec. 31, 2014: — 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 of year ended Dec. 31 2014 are not shown.

(2) Consolidated Financial Position

	Total assets	Equity	Shareholders' equity ratio	Shareholders' equity per share
	(millions of yen)	(millions of yen)	(%)	(Yen)
Year ended Dec. 31, 2015	489,842	244,540	43.2	721.78
Year ended Dec. 31, 2014	510,570	216,725	36.2	538.81

(Reference) Shareholders' equity Year ended Dec. 31, 2015: 211,682 million yen
Year ended Dec. 31, 2014: 185,001 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, 2015	31,768	(13,416)	(38,136)	45,809
Year ended Dec. 31, 2014	29,845	(9,814)	(19,741)	65,716

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, 2014	—	0.00	—	4.00	4.00	1,030	6.8	0.8
Year ended Dec. 31, 2015	—	10.00	—	10.00	20.00	5,865	28.5	3.2
Year ending Dec. 31, 2016 (Forecast)	—	—	—	—	—		—	

(Notes) (1) Dividends per share for the fiscal year-ending December 31, 2016 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 2016 (January 1, 2016 – March 31, 2016)

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(yen)
1Q- FY2016 (3 months)	51,000	(15.6)	3,000	(66.1)	2,500	(66.5)	1,000	(80.6)	3.41

(Notes) SUMCO discloses forecasts for the forthcoming quarter only. For more information, please see "Outlook for the First Quarter of Fiscal Year 2016" 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 "Changes 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):
293,285,539 shares for the fiscal year 2015, ended December 31, 2015
257,751,739 shares for the fiscal year 2014, ended December 31, 2014
[2] Treasury stock as of the end of period:
6,766 shares for the fiscal year 2015, ended December 31, 2015
6,246 shares for the fiscal year 2014, ended December 31, 2014
[3] Average number of shares during period:
281,860,998 shares for the fiscal year 2015, ended December 31, 2015
257,745,816 shares for the fiscal year 2014, ended December 31, 2014

(Reference) Summary of Nonconsolidated Business Results

Nonconsolidated Business Results for Fiscal Year ended December 31, 2015
(January 1, 2015 – December 31, 2015)

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

	Net sales		Operating income		Ordinary income		Net income	
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)
Year ended Dec. 31, 2015	187,395	5.6	15,141	30.7	11,984	32.7	11,448	17.9
Year ended Dec. 31, 2014	177,426	—	11,587	—	9,030	—	9,712	—

	Net income per share	Diluted net income per share
	(yen)	(yen)
Year ended Dec. 31, 2015	40.62	—
Year ended Dec. 31, 2014	33.32	31.71

(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 of year ended Dec. 31, 2014 are not shown.

(2) Nonconsolidated Financial Position

	Total assets	Equity	Shareholders' equity ratio	Shareholders' equity per share
	(millions of yen)	(millions of yen)	(%)	(Yen)
Year ended Dec. 31, 2015	432,569	189,155	43.7	644.97
Year ended Dec. 31, 2014	457,871	169,288	37.0	477.85

(Reference) Shareholders' equity Year ended Dec. 31, 2015: 189,155 million yen
Year ended Dec. 31, 2014: 169,288 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 2016" on page 2 of Supplementary Materials.

Dividends per share for the fiscal year-ending December 31, 2016 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 9, 2016. 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, 2014	—	—	—	2,500,000.00	2,500,000.00
Year ended Dec. 31, 2015	—	—	—	—	—
Year ending Dec. 31, 2016 (Forecast)	—	—	—	—	—

(Note) SUMCO has acquired and cancelled all class A shares on May 11, 2015, so dividend for class A shares will not be paid from year ended Dec. 31, 2015.

(Supplementary Materials)

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1. Analysis of Business Results and Financial Position

(1) Analysis of Business Results

① Business Results for the Fiscal Year 2015

During fiscal year 2015 (January 1, 2015 – December 31, 2015), the market for semiconductor silicon wafers was firm during the first half but entered a correction phase in the second half, due to such factors as global economic slowdown and the emergence of excess inventory of smartphones for shipment to China.

Demand for 300 mm wafers for logic and DRAM was affected by sluggish PC and tablet sales, and was further impacted by the inventory adjustment in smartphones that started in the summer. On the other hand, 300 mm wafer demand for NAND, boosted by growing demand for cloud and data centers, remained solid. As a result, adjustment for 300 mm wafers was relatively small.

Small-diameter wafers of 200 mm or less experienced weak demand, mainly from sluggishness in consumer and industrial applications reflecting the global economic slowdown.

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. The Group has also reinforced its financial base and realized a more flexible management structure by implementing its Capital Increase and Restructuring Plan.

As a result, for the fiscal year 2015, the SUMCO Group registered consolidated net sales of 236,826 million yen, operating income of 29,447 million yen, ordinary income of 25,538 million yen, and net income of 19,747 million yen.

② Outlook for the First Quarter of Fiscal Year 2016

The market for semiconductor silicon wafers is expected to recover at a mild pace after bottoming out in the first quarter of fiscal year 2016.

In this market environment, the Group will continue to pursue the development of cutting-edge technologies and to strengthen its profit base through cost rationalization.

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 2016 as follows.

Consolidated Business forecasts for the First Quarter of Fiscal Year 2016 (Jan. 1, 2016 – Mar. 31, 2016)

	Net Sales	Operating Income	Ordinary Income	Net Income attributable to owners of parent	Net Income per Share
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)	(yen)
1Q-FY2016 Forecasts (3 months)	51,000	3,000	2,500	1,000	3.41
(Reference) 1Q-FY2015 Results (3 months)	60,415	8,855	7,471	5,148	18.90

(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 2016 are made assuming translation rates of one U.S. dollar to 120 yen.

(2) Analysis of Financial Position

① Analysis of Assets, Liabilities and Equity

Total assets at the end of fiscal year 2015 decreased by 20,727 million yen from the end of the previous fiscal year to 489,842 million yen. The main factors of this change were 12,225 million yen increase in raw materials and supplies, 18,700 million yen decrease in marketable securities and 13,758 million yen decrease in non-current assets due to progression of depreciation and usage of long-term advanced payments.

Total liabilities at the end of fiscal year 2015 decreased by 48,543 million yen from the end of the previous fiscal year to 245,301 million yen. The main factor was 45,670 million yen decrease in long-term debt.

Total equity at the end of fiscal year 2015 increased by 27,815 million yen from the end of the previous fiscal year to 244,540 million yen. The main factors were 9,820 million yen increase in issuance of new shares and purchase and retirement of treasury shares, and 17,555 million yen increase in retained earnings due to registration of net income.

② Analysis of Cash Flow

Cash and cash equivalents at the end of fiscal year 2015 decreased by 19,907 million yen from the end of the previous fiscal year to 45,809 million yen. This decrease mainly reflects the fact that net cash provided by operating activities was 31,768 million yen, net cash used in investing activities was 13,416 million yen, net cash used in financing activities was 38,136 million yen and foreign currency transaction adjustment on cash and cash equivalents was (123) million yen.

The situation for each type of each cash flow for fiscal year 2015 and contributing factors were as follows.

(Cash flow from operating activities)

Net cash provided by operating activities for fiscal year 2015 increased by 1,923 million yen from the previous fiscal year to 31,768 million yen. The main factors were improvement of income before income taxes and minority interests, decrease in notes and account receivable – trade, increase in inventories and decrease in notes and accounts payable - trade.

(Cash flow from investing activities)

Net cash used in investing activities for fiscal year 2015 increased by 3,602 million yen from the previous fiscal year to 13,416 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 2015 was 38,136 million yen. The main factors affecting proceeds were 63,753 million yen from issuance of new shares, 4,000 million yen from long-term debt, and 15,287 million yen from a net increase in short-term borrowings. On the other hand, the main factors affecting outflows were 54,404 million yen for purchases of treasury stock, 60,416 million yen for repayments of long-term debt, and 5,088 million yen for dividends paid.

(Reference) Trends in cash flow indices

		Year ended Jan. 31, 2012	Year ended Jan. 31, 2013	Year ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2015
Equity ratio	(%)	25.1	32.2	33.7	36.2	43.2
Market-value based equity ratio	(%)	38.6	49.6	48.0	88.3	55.3
Cash flow to interest-bearing debt ratio	(Yr)	12.4	14.7	102.0	7.4	5.7
Interest coverage ratio	(Times)	4.9	4.9	0.7	8.2	9.4

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 10 yen per share, the same amount as the interim dividend of 10 yen per share. Accordingly, the total annual dividend for the fiscal year ending December 31, 2015 becomes 20 yen per share.

The dividends for the fiscal year ending December 31, 2016 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

The silicon wafers that the SUMCO Group manufactures and sells are used for semiconductor substrates installed in mobile devices, such as smartphones, tablet PCs, and personal computers, as well as in applications for automobiles and a wide range of other consumer products. As a result, its business is vulnerable to a number of factors specific to the semiconductor industry 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 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:

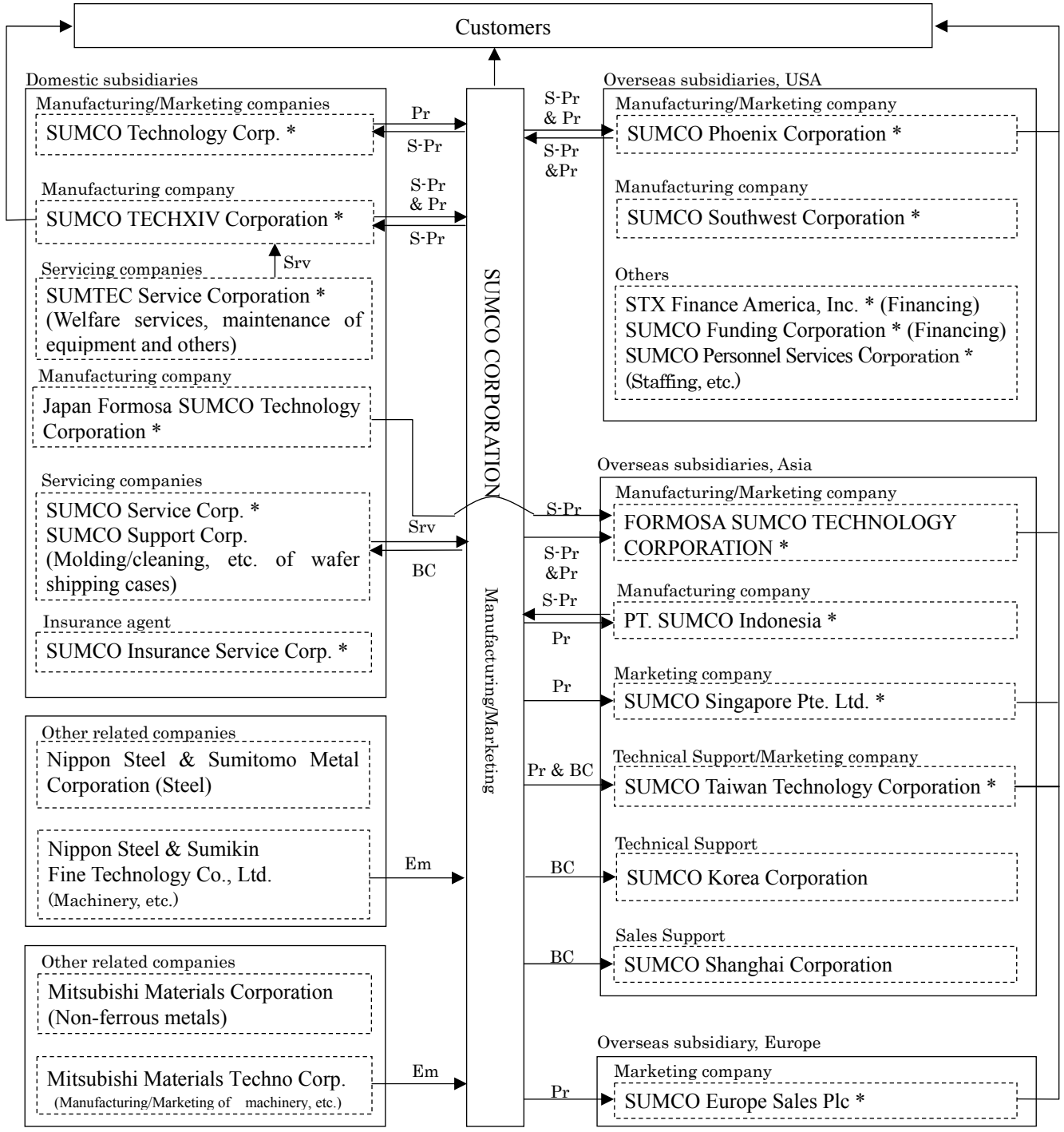
a. Major changes in the business environment necessitating business or organizational restructuring or other actions;
b. With regard to retirement benefit obligations, a decline in the market value of SUMCO's pension assets, a decline in return on investment, or significant changes in the actuarial assumptions used in the calculation of retirement benefit obligations;
c. Deterioration in earnings or significant changes in projections of future earnings caused by changes in the economic environment or other developments, which necessitate that certain accounting measures be taken;
d. Inability to recruit the human resources needed for the operations of the SUMCO Group;
e. Lawsuits and other legal actions brought against the SUMCO Group for product failure and other reasons;
f. Failure of internal governance to function properly.

2. Situation of the Corporate Group

SUMCO has eight domestic subsidiaries (six 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, 2015, Japan Formosa SUMCO Technology Corporation was established and 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. The market for 200 mm silicon wafers will also grow gradually due to demand from automobile, communication, and other consumer applications.

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 IoT, 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.

In addition, our financial targets in medium-term are shareholders' equity of over 50% and gross D/E ratio of less than 0.5.

(3) Challenges Facing SUMCO Group

Supported by demand for smartphones, automobile, communication, and industrial applications, the market for semiconductor silicon wafers is projected to continue growing at a moderate pace in the future.

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 134.2 billion yen as of the end of fiscal year 2015, up 12.2 billion yen from the previous year-end.

"Raw materials and supplies" is projected to increase to more or less 150 billion yen by the end of fiscal year 2016. However, as long-term contracts are gradually expiring, inventory level is projected to follow a downward trend after peaking in fiscal year 2016.

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. Basic Policy for the Selection of Accounting Standards

The SUMCO Group has been using Japanese Generally Accepted Accounting Principles (JP-GAAP). We are going to continue to use JP-GAAP in the foreseeable future.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(millions of yen)

	End of FY2014 (Dec. 31, 2014)	End of FY2015 (Dec. 31, 2015)
Assets		
Current assets		
Cash and time deposits	42,016	41,913
Notes and accounts receivable – trade	42,522	41,002
Marketable securities	23,700	5,000
Finished products	15,204	16,158
Work in process	13,600	13,229
Raw materials and supplies	121,999	134,224
Deferred income tax assets	142	266
Other	6,609	7,035
Allowance for doubtful accounts	(8)	(11)
Total current assets	265,787	258,818
Non-current assets		
Property, plant and equipment		
Buildings and structures	195,468	195,448
Accumulated depreciation	(107,010)	(112,647)
Buildings and structures, net	88,457	82,800
Machinery, equipment and vehicles	722,521	726,191
Accumulated depreciation	(670,812)	(676,828)
Machinery, equipment and vehicles, net	51,709	49,362
Land	20,321	20,286
Construction in progress	7,710	5,077
Other	14,315	14,567
Accumulated depreciation	(13,488)	(13,510)
Other, net	826	1,057
Total property, plant and equipment	169,025	158,585
Intangible assets		
Goodwill	11,915	10,063
Software	2,569	2,709
Other	166	1,186
Total intangible assets	14,651	13,959
Investments and other assets		
Investment securities	81	81
Long-term advance payments	50,814	47,370
Long-term prepaid expenses	4,105	3,676
Deferred income tax assets	5,092	6,494
Other	1,396	1,241
Allowance for doubtful accounts	(385)	(385)
Total investments and other assets	61,105	58,479
Total non-current assets	244,783	231,024
Total assets	510,570	489,842

(millions of yen)

	End of FY2014 (Dec. 31, 2014)	End of FY2015 (Dec. 31, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	29,602	22,884
Short-term borrowings	65,673	70,235
Current portion of long-term lease obligations	954	1,254
Accrued income taxes	1,060	1,451
Reserve for bonuses	951	1,231
Notes and accounts payable – construction	2,766	5,708
Other	11,547	8,785
Total current liabilities	112,556	111,550
Long-term liabilities		
Long-term debt	151,658	105,988
Long-term lease obligations	2,749	2,887
Deferred income tax liabilities	1,537	1,800
Deferred income tax liabilities on revaluation reserve for land	1,558	1,413
Net defined benefit liability	21,677	20,058
Other	2,107	1,604
Total long-term liabilities	181,288	133,751
Total liabilities	293,845	245,301
Equity		
Shareholders' equity		
Capital stock	136,607	138,718
Capital surplus	15,676	23,384
Retained earnings	30,946	48,502
Treasury stock	(10)	(11)
Total shareholders' equity	183,220	210,594
Accumulated other comprehensive income (loss)		
Net unrealized gain on available-for-sale securities	0	0
Deferred loss on derivatives under hedge accounting	(1)	(0)
Land revaluation surplus	2,670	2,816
Foreign currency translation adjustments	2,600	1,753
Remeasurements of defined benefit plans	(3,488)	(3,481)
Total accumulated other comprehensive income (loss)	1,781	1,088
Minority interests	31,723	32,857
Total equity	216,725	244,540
Total liabilities and equity	510,570	489,842

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

[1] Consolidated Statements of Operations

(millions of yen)

	FY2014 (Jan. 1, 2014– Dec. 31, 2014)	FY2015 (Jan. 1, 2015– Dec. 31, 2015)
Net sales	225,319	236,826
Cost of sales	175,485	182,272
Gross profit	49,833	54,553
Selling, general and administrative expenses	24,191	25,106
Operating income	25,642	29,447
Non-operating income		
Interest income	44	88
Dividend income	20	26
Subsidy income	6	389
Compensation income	44	131
Other	600	316
Total non-operating income	716	952
Non-operating expenses		
Interest expense	3,637	3,297
Other	794	1,564
Total non-operating expenses	4,432	4,861
Ordinary income	21,926	25,538
Extraordinary income		
Gain in sales of non-current assets	—	323
Total extraordinary income	—	323
Extraordinary loss		
Impairment loss	—	2,043
Total extraordinary loss	—	2,043
Income before income taxes and minority interests	21,926	23,818
Income taxes – current	995	1,745
Income taxes – deferred	1,584	(1,328)
Total income taxes	2,579	416
Net income before minority interests	19,347	23,401
Minority interests	3,057	3,653
Net income	16,289	19,747

[2] Consolidated Statement of Comprehensive Income

(millions of yen)

	FY2014 (Jan. 1, 2014– Dec. 31, 2014)	FY2015 (Jan. 1, 2015– Dec. 31, 2015)
Net income before minority interests	19,347	23,401
Other comprehensive income		
Net unrealized gain (loss) on available-for-sale securities	(0)	0
Deferred gain (loss) on derivatives under hedge accounting	(1)	0
Revaluation reserve for land	—	145
Foreign currency translation adjustments	7,544	(1,743)
Remeasurements of defined benefit plans, net of tax	32	(40)
Total other comprehensive income	7,575	(1,638)
Comprehensive income	26,922	21,763
Total comprehensive income attributable to		
Owners of the parent	21,580	19,054
Minority interests	5,342	2,709

(3) Consolidated Statements of Changes in Equity

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
Cumulative effects of changes in accounting policies					
Restated balance	136,607	15,676	15,924	(9)	168,198
Changes during period					
Issuance of new shares					
Transfer to other capital surplus from capital stock					
Dividends of surplus			(1,287)		(1,287)
Net income			16,289		16,289
Reversal of revaluation reserves for land			0		0
Purchase of treasury shares				(0)	(0)
Retirement of treasury shares					
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
Cumulative effects of changes in accounting policies									
Restated balance	0	—	2,671	(2,675)	(143)	—	(147)	26,785	194,836
Changes during period									
Issuance of new shares									
Transfer to other capital surplus from capital stock									
Dividends of surplus									(1,287)
Net income									16,289
Reversal of revaluation reserves for land			(0)				(0)		—
Purchase of treasury shares									(0)
Retirement of treasury shares									
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

For the year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

(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	30,946	(10)	183,220
Cumulative effects of changes in accounting policies			2,896		2,896
Restated balance	136,607	15,676	33,843	(10)	186,116
Changes during period					
Issuance of new shares	32,111	32,111			64,223
Transfer to other capital surplus from capital stock	(30,000)	30,000			—
Dividends of surplus			(5,088)		(5,088)
Net income			19,747		19,747
Reversal of revaluation reserves for land					
Purchase of treasury shares				(54,404)	(54,404)
Retirement of treasury shares		(54,403)		54,403	—
Change of scope of consolidation					
Net changes of items other than shareholders' equity					
Total changes during of period	2,111	7,708	14,658	(0)	24,478
Balance at end of period	138,718	23,384	48,502	(11)	210,594

	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	(1)	2,670	2,600	—	(3,488)	1,781	31,723	216,725
Cumulative effects of changes in accounting policies									2,896
Restated balance	0	(1)	2,670	2,600	—	(3,488)	1,781	31,723	219,622
Changes during period									
Issuance of new shares									64,223
Transfer to other capital surplus from capital stock									—
Dividends of surplus									(5,088)
Net income									19,747
Reversal of revaluation reserves for land									
Purchase of treasury shares									(54,404)
Retirement of treasury shares									—
Change of scope of consolidation									
Net changes of items other than shareholders' equity	0	0	145	(847)		7	(693)	1,134	440
Total changes during of period	0	0	145	(847)		7	(693)	1,134	24,918
Balance at end of period	0	(0)	2,816	1,753	—	(3,481)	1,088	32,857	244,540

(4) Consolidated Statements of Cash Flows

(millions of yen)

	FY2014 (Jan. 1, 2014– Dec. 31, 2014)	FY2015 (Jan. 1, 2015– Dec. 31, 2015)
Operating activities:		
Income before income taxes and minority interests	21,926	23,818
Depreciation and amortization	19,471	21,795
Impairment loss	—	2,043
Amortization of goodwill	1,657	1,657
Increase (decrease) in allowance for doubtful accounts	(37)	2
Increase (decrease) in reserve for bonuses	(1,138)	313
Increase in net defined benefit liability	796	1,237
Interest and dividend income	(65)	(115)
Interest expense	3,637	3,297
Net loss (income) on sales and disposal of fixed assets	479	(183)
Decrease (increase) in notes and accounts receivable - trade	(10,323)	1,367
Increase in inventories	(6,505)	(13,062)
Decrease (increase) in other current assets	974	(452)
Decrease in notes and accounts payable, trade	(2,361)	(6,655)
Increase (decrease) in other current liabilities	2,655	(2,628)
Other, net	2,786	3,933
Subtotal	33,953	36,366
Interest and dividends received	66	115
Interest paid	(3,642)	(3,394)
Income taxes paid	(531)	(1,318)
Net cash provided by operating activities	29,845	31,768
Investing activities:		
Payments for purchases of fixed assets	(9,962)	(12,656)
Proceeds from sales of fixed assets	38	491
Purchase of investments in subsidiaries	(0)	—
Other, net	109	(1,251)
Net cash used in investing activities	(9,814)	(13,416)
Financing activities:		
Increase (decrease) in short-term borrowings, net	(25,181)	15,287
Proceeds from long-term debt	66,900	4,000
Repayments of long-term debt	(57,505)	(60,416)
Proceeds from sale and leaseback	1,504	1,500
Repayments of lease obligations	(3,767)	(1,192)
Proceeds from issuance of new shares	—	63,753
Payments for purchases of treasury stock	(0)	(54,404)
Dividends paid	(1,287)	(5,088)
Dividends paid to minority shareholders	(403)	(1,575)
Net cash used in financing activities	(19,741)	(38,136)
Foreign currency transaction adjustment on cash and cash equivalents	2,525	(123)
Net increase (decrease) in cash and cash equivalents	2,815	(19,907)
Cash and cash equivalents at beginning of year	62,863	65,716
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	38	—
Cash and cash equivalents at end of year	65,716	45,809

(5) Notes to Consolidated Financial Statements

(Notes regarding Going Concern Assumption)

Not applicable

(Changes in Accounting Policies)

(Adoption of Accounting Standard for Retirement Benefits)

We have adopted "Accounting Standard for Retirement Benefits" (Corporate Accounting Standards No. 26 of May 17, 2012, hereinafter referred to as "Retirement Benefits Accounting Standards") and "Implementation Guidance on Accounting Standard for Retirement Benefits" (Corporate Accounting Standard No. 25 of March 26, 2015, hereinafter referred to as "Implementation Guidance on Retirement Benefits") in this fiscal year under the previous stipulated in the texts of the Section 35 of the Retirement Benefits Accounting Standards and of the Section 67 of the Implementation Guidance on Retirement Benefits: we have revised the accounting method for retirement benefit obligations and service cost, and have changed our method of attributing projected retirement benefits from a straight-line basis to a benefit formula basis along with changing the method of discount determination to a method that uses single-weighted average discount rate reflecting the estimated timing and amounts, either than the discount rate based on the average remaining year of service.

To apply the Retirement Benefits Accounting Standards, We comply with the transitional handling stipulated in the Section 37 of Retirement Benefits Accounting Standards, and effect of the revision of the method for calculation of retirement benefit obligations and service cost, financial effects are added to or subtracted from retained earnings at the beginning of this fiscal year.

As the result, net defined benefit liability decreased by 2,896 million yen while retained earnings increased by 2,896 million yen as of the beginning of this fiscal year. Please take note that the expected effect this change has on our operating income, ordinary income and income before income taxes during this fiscal year (January 1, 2015 - December 31, 2015), is negligible.

In addition, shareholders' equity per share increased 9.88 yen and the effect of net income per share and diluted net income per share is negligible.

(Segment information)

a. Segment information

For the year ended December 31, 2014 (January 1, 2014 – December 31, 2014) and the year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

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, 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 are 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

For the year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

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

2. Information about geographical areas
   (1) Net sales

(millions of yen)

Japan	North America	Asia	Others	Total
54,889	34,666	127,575	19,694	236,826

(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
111,765	42,055	4,764	158,585

3. Information about major customers

(millions of yen)

Customer name	Net sales	Relevant segment
Sumitomo Corporation	34,931	Crystalline silicon

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

Not applicable

For the year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

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

d. Information about amortization of goodwill
For the year ended December 31, 2014 (January 1, 2014 – December 31, 2014) and the year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

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, 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.”

For the year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

Not applicable

(Per-share information)

	Year ended Dec. 31, 2014 (Jan. 1, 2014 – Dec. 31, 2014)	Year ended Dec. 31, 2015 (Jan. 1, 2015 – Dec. 31, 2015)
Equity per share	538.81 yen	721.78 yen
Net income per share	58.84 yen	70.06 yen
Diluted net income per share	53.18 yen	67.77 yen

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

	Year ended Dec. 31, 2014 (Jan. 1, 2014 – Dec. 31, 2014)	Year ended Dec. 31, 2015 (Jan. 1, 2015 – Dec. 31, 2015)
Net income per share		
Net income (millions of yen)	16,289	19,747
Amount not belonging to common shareholders (millions of yen)	1,125	―
(Preferred divided (millions of yen))	(1,125)	(―)
Net income for common stock (millions of yen)	15,164	19,747
Average number of shares during the period (shares)	257,745,816	281,860,998
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	9,534,441
(Preferred stock (shares))	(48,569,886)	(9,534,441)
Summary of residual securities not included in calculation of current net income per share after dilution due to lack of dilutive effect	―――	

(Subsequent event)

Not applicable

6. Others

(1) Changes in Officers

① Change of Representative Director

・Representative Director to be newly nominated

(New Position)	(Name)	(Current Position)
Representative Director, Executive Vice President	Hatrumitsu Endo	Director, Senior Managing Executive Officer, General Manager of Sales & Marketing Div., the Company

② Other Changes

・Director to be newly nominated (excluding Audit and Supervisory Committee Members)

(New Position)	(Name)	(Current Position)
Director	Susumu Maekawa	General Manager, Group Companies Planning Div., Nippon Steel & Sumitomo Metal Corporation

・Director to be newly nominated (Audit and Supervisory Committee Members)

(New Position)	(Name)	(Current Position)
Director	Hiroshi Yoshikawa	Corporate Auditor
Director	Hisashi Katahama	Corporate Auditor
Outside Director	Tanaka Hitoshi	Corporate Auditor
Outside Director	Masahiro Mitomi	Outside Director
Outside Director	Shinichiro Ota	Senior Counselor, Electric Power Development Co., Ltd.
Outside Director	Kohei Nakanishi	Corporate Advisor, Mitsubishi Corporation

③ Effective Date

March 29, 2016