Brief Statement on Consolidated Financial Results for the Fiscal Year 2016 (Ended December 31, 2016) [Japanese Accounting Standards]

February 8, 2017

Company name: SUMCO Corporation
TSE First Section
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Scheduled date of ordinary general meeting of shareholders: March 29, 2017
Scheduled date of commencement of dividend payment: March 9, 2017
Scheduled date of filing of annual security report: March 29, 2017
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 the Fiscal Year ended December 31, 2016 (January 1, 2016 - December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)
Year ended Dec. 31, 2016	211,361	(10.8)	14,046	(52.3)	9,919	(61.2)	6,588	(66.6)
Year ended Dec. 31, 2015	236,826	5.1	29,447	14.8	25,538	16.5	19,747	21.2

(Note) Comprehensive income Year ended Dec. 31, 2016: 4,122 million yen ((81.1)%)
Year ended Dec. 31, 2015: 21,763 million yen ((19.2)%)

	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, 2016	22.46	—	3.1	2.0	6.6
Year ended Dec. 31, 2015	70.06	67.77	10.0	5.1	12.4

(Reference) Equity in earnings of affiliates Year ended Dec. 31, 2016: — million yen
Year ended Dec. 31, 2015: — million yen

(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, 2016	493,243	242,836	42.5	715.46
Year ended Dec. 31, 2015	489,842	244,540	43.2	721.78

(Reference) Shareholders' equity Year ended Dec. 31, 2016: 209,829 million yen
Year ended Dec. 31, 2015: 211,682 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, 2016	27,322	(18,003)	(9,120)	45,565
Year ended Dec. 31, 2015	31,768	(13,416)	(38,136)	45,809

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, 2015	—	10.00	—	10.00	20.00	5,865	28.5	3.2
Year ended Dec. 31, 2016	—	5.00	—	5.00	10.00	2,932	44.5	1.4
Year ending Dec. 31, 2017 (Forecast)	—	—	—	—	—		—	

(Note) Dividends per share for the fiscal year-ending December 31, 2017 are not determined.

3. Consolidated Business Forecasts for the First Quarter of Fiscal Year 2017 (January 1, 2017 – March 31, 2017)

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(yen)
1Q- FY2017 (3 months)	59,000	13.9	7,000	93.7	4,500	68.2	3,000	90.3	10.23

(Notes) SUMCO discloses forecasts for the forthcoming quarter only. For more information, please see "Outlook for the First Quarter of Fiscal Year 2017" 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 2016, ended December 31, 2016
293,285,539 shares for the fiscal year 2015, ended December 31, 2015
[2] Treasury stock as of the end of period:
7,046 shares for the fiscal year 2016, ended December 31, 2016
6,766 shares for the fiscal year 2015, ended December 31, 2015
[3] Average number of shares during period:
293,278,695 shares for the fiscal year 2016, ended December 31, 2016
281,860,998 shares for the fiscal year 2015, ended December 31, 2015

(Reference) Summary of Nonconsolidated Business Results

Nonconsolidated Business Results for the Fiscal Year ended December 31, 2016
(January 1, 2016 – December 31, 2016)

(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, 2016	167,138	(10.8)	4,893	(67.7)	2,345	(80.4)	3,667	(68.0)
Year ended Dec. 31, 2015	187,395	5.6	15,141	30.7	11,984	32.7	11,448	17.9

	Net income per share	Diluted net income per share
	(yen)	(yen)
Year ended Dec. 31, 2016	12.51	—
Year ended Dec. 31, 2015	40.62	—

(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, 2016	436,850	186,010	42.6	634.24
Year ended Dec. 31, 2015	432,569	189,155	43.7	644.97

(Reference) Shareholders' equity Year ended Dec. 31, 2016: 186,010 million yen
Year ended Dec. 31, 2015: 189,155 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 2017" on page 2 of Supplementary Materials.

Dividends per share for the fiscal year-ending December 31, 2017 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 8, 2017. Supplementary materials for financial results are available in our web site after starting the briefing.

(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 2016

The market for semiconductor silicon wafers in the consolidated fiscal year saw continued strong demand. While the fiscal year began with lingering effects from inventory adjustments, wafer demand grew in spring and following, driven by smartphone functional advances and by data center needs from increased traffic.

The supply of 300 mm wafers struggled to meet demand, as along with growth for memory use, needs for logic use expanded in spring and after. The long decline in demand for wafers of 200 mm and smaller continued, but there were signs of recovery, boosted by robust demand for automobiles, industry, communications, IoT and other uses.

At the same time, the Group's results were impacted by the strengthening yen.

Against this background, following the direction set by the SUMCO Vision, the SUMCO Group sought to raise its presence among customers through technology development to meet needs for leading-edge, distinctive products, while improving its break-even point through cost reductions.

As a result, for the fiscal year 2016, the SUMCO Group registered consolidated net sales of 211,361 million yen, operating income of 14,046 million yen, ordinary income of 9,919 million yen, and net income attributable to owners of the parent of 6,588 million yen.

② Outlook for the First Quarter of Fiscal Year 2017

The market for semiconductor silicon wafers in the first quarter of fiscal year 2017 is expected to see a continued tight supply-and-demand situation for both 300 mm and 200 mm wafers.

In this market climate, the SUMCO Group will continue developing state-of-the-art technologies to differentiate its products from others, while strengthening the earnings base through further cost rationalization and productivity improvements.

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 2017 as follows.

Consolidated Business forecasts for the First Quarter of Fiscal Year 2017 (Jan. 1, 2017 – Mar. 31, 2017)

	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-FY2017 Forecasts (3 months)	59,000	7,000	4,500	3,000	10.23
(Reference) 1Q-FY2016 Results (3 months)	51,779	3,612	2,675	1,576	5.37

(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 2017 are made assuming translation rates of one U.S. dollar to 114 yen.

(2) Analysis of Financial Position

① Analysis of Assets, Liabilities and Equity

Total assets as of the end of the consolidated fiscal year increased by 3,400 million yen year on year, to 493,243 million yen. The main factor behind asset growth was a 17,185 million yen increase in raw materials and supplies, while non-current assets declined by 12,799 million yen due to progression of depreciation and tapping of long-term advance payments.

Total liabilities at the end of the consolidated fiscal year increased by 5,105 million yen year on year, to 250,407 million yen. While current liabilities decreased by 6,358 million yen with the decline in short-term borrowings and other factors, an increase in long-term debt caused long-term liabilities to rise by 11,464 million yen.

Total equity at the end of the consolidated fiscal year decreased by 1,704 million yen year on year, to 242,836 million yen. Major factors for the decrease in total equity were an increase of 2,483 million yen in deferred loss on derivatives under hedge accounting and a decrease of 1,516 million yen in foreign currency translation adjustment, while retained earnings increased 2,188 million yen due mainly to net income attributable to owners of the parent.

② Analysis of Cash Flow

Cash and cash equivalents at the end of the consolidated fiscal year decreased by 243 million yen year on year, to 45,565 million yen. By types, net cash provided by operating activities was 27,322 million yen, net cash used in investing activities was 18,003 million yen, net cash used in financing activities was 9,120 million yen, and foreign currency translation adjustment on cash and cash equivalents was (442) million yen.

The factors affecting each of the cash flows in the consolidated fiscal year are as follows.

(Cash flow from operating activities)

Net cash provided by operating activities in the consolidated fiscal year was 27,322 million yen, a year-on-year decrease of 4,446 million yen. The main factors were that trade accounts payable increased, whereas income before income taxes decreased and trade accounts receivable increased.

(Cash flow from investing activities)

Net cash used in investing activities in the consolidated fiscal year was 18,003 million yen, a year-on-year increase of 4,586 million yen. The main factor was an increase in payments for purchases of fixed assets.

(Cash flow from financing activities)

Net cash used in financing activities in the consolidated fiscal year was 9,120 million yen. While proceeds from long-term debt was 63,234 million yen, repayment of long-term debt was 49,177 million yen, the net decrease in short-term borrowings was 17,796 million yen, and dividends paid were 4,399 million yen.

(Reference) Trends in cash flow indices

		Year ended Jan. 31, 2013	Year ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2015	Year ended Dec. 31, 2016
Equity ratio	(%)	32.2	33.7	36.2	43.2	42.5
Market-value based equity ratio	(%)	49.6	48.0	88.3	55.3	89.8
Cash flow to interest-bearing debt ratio	(Yr)	14.7	102.0	7.4	5.7	6.5
Interest coverage ratio	(Times)	4.9	0.7	8.2	9.4	9.5

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

Based on the Articles of Incorporation, SUMCO pays a dividend of surplus as decided by Board of Directors resolution. The basic policy on distribution of surplus is to decide the dividend rate for each fiscal year based on an overall consideration of the profit levels in the current period, the outlook for subsequent terms, financial requirements for capital expenditures, the status of internal reserves, and other factors.

The year-end dividend for common stock for the current fiscal year is expected to be 5 yen per share, the same amount as the interim dividend (annual dividend 10 yen). The dividend amounts for common stock for the fiscal year ending December 31, 2017 are not yet determined.

(4) Business Risks

The SUMCO Group identifies the factors below as material risks to its management and business activities. Although the Group adopts a policy of endeavoring to prevent the realization of these risks and to respond as needed in the event a risk materializes, these factors may have a significant effect on the Group's operations or performance.

Note that forward-looking statements in the descriptions of the factors below are based on the Group's judgment as of the date of release 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 personal computers and mobile devices such as smartphones and tablets, as well as being used in automobiles and in various other products including consumer products. As a result, the business is affected by a number of factors specific to the semiconductor industry and associated industries. Among these factors are sharp deterioration of market conditions, rapid advances in technical innovation, product obsolescence, sudden changes in product configuration, drop 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 standing in relation to competitors, and large variance in customer demand. Such factors may affect the Group's performance.

Other factors that may affect the Group's performance are the political situation in each country including the countries of major customers, and economic conditions in Japan and abroad such as changes in the prices of energy and other resources and in electric power prices.

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 include efforts to raise sales volumes by increasing production levels and to raise production yields by improving manufacturing processes. However, if prices decline more significantly than expected due to a sudden deterioration in supply-demand balance or because of some other event, such price declines may affect the Group's 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 about 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, therefore affecting the Group's 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 long-term purchase agreements with the world's major polycrystalline silicon manufacturers, 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. Since, 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, inventory has increased.

In addition, because purchase prices are decided in long-term contracts, opportunities for raw materials cost reduction may be limited until these contracts expire and inventory returns to proper levels.

The outlook for "Raw Materials and Supplies," including the inventory of raw materials, is as indicated

under "3. Management Policies (3) Challenges Facing the SUMCO Group"; it should be noted that changes in consumption amounts or the implementation of necessary accounting measures due to significant changes in the business environment or other factors may affect the Group's performance or financial condition.

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, for which the Group may not be able to find alternative suppliers. Any problem hindering the smooth procurement of such manufacturing equipment may affect the Group's performance.

⑤ Risks Related to Customers and Suppliers (bankruptcies, operation stoppage, 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 performance or financial condition. To avoid risks of disruption in procurement, the Group has taken multiple measures, such as concluding supply contracts with multiple suppliers of various materials and keeping sufficient inventories. However, in the event of a supplier's bankruptcy due to a sharp deterioration in economic conditions, or of an operation stoppage at a supplier due to a natural disaster or accident involving manufacturing equipment, the resultant difficulty in procuring materials may affect the Group's performance or financial condition.

⑥ Capital Investment

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

⑦ Procurement of Funds

Regarding the SUMCO Group's syndicated and other loan contracts, significant deterioration in the Group's financial condition could result in breach of financial covenants, trigger demands for repayment, and cause the Group to forfeit the benefit of time, affecting its 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 performance.

⑧ Technology and R&D

The semiconductor industry is characterized by rapid advances in technology. Customers of the silicon wafers supplied by the Group have a broad range of constantly escalating demands for higher circuit densities, finer line widths, new semiconductor applications, greater precision, and higher production efficiency. To meet such 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 demand growth is expected. By product category, the R&D focus is on technologies related to epitaxial wafers and other high value-added products, as well as on technologies pertaining to next-generation wafer products.

In the event, however, R&D activities do not produce the expected benefits, so that the Group becomes unable to respond to technological advances in the semiconductor industry and to comply with customer demands, or if technology development lags behind competitors, the Group's business development 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.

The Group's patented technologies, moreover, cover a diverse range of areas from advanced control of crystal defects, high-precision polishing and high-quality epitaxial wafers, and it is aggressively applying for patents on these and other results of its day-by-day development efforts to meet ever more sophisticated technology demands.

In case, however, the Group infringes on the intellectual property rights of a third party because a patent had been granted without the Group's awareness, the Group may be required to cease use of the proprietary technology or be asked to pay damages, affecting the Group's business development 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, in addition to Japan. Accordingly, the Group's manufacturing and sales activities may be affected by changes in the economic and political situations, 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, differences in social and labor practices, and underdeveloped social infrastructure in those countries and regions.

⑪ Foreign Exchange Market Volatility

The SUMCO Group conducts transactions in foreign currencies, such as in product exporting. It also converts financial data of overseas consolidated subsidiaries to yen when creating consolidated financial statements. The Group's performance and financial condition may therefore be affected by foreign exchange market volatility.

⑫ Environmental Laws and Regulations

The SUMCO Group operations, in particular at its manufacturing sites, are subject to environmental laws and regulations in Japan and abroad governing such matters as energy consumption, atmospheric emissions and effluents, the use and storage of harmful chemical substances, the disposal of industrial wastes, and testing 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. The trend in recent years, moreover, has been toward further tightening of environmental and other regulations. It cannot be denied that in the future, the Group may become subject to new environmental and other laws and regulations in Japan and other countries. In such cases, the Group could incur additional expenses for complying with these laws and regulations, affecting the Group's business development or performance.

⑬ Natural Disasters and Accidents

In the event of natural disasters, such as typhoons, torrential rain, earthquakes, tsunamis, and volcanic activities, or of accidents, fires, or acts of terrorism, the SUMCO Group manufacturing sites may encounter unexpected problems such as shutdown of operations, damage to equipment, and limited access to water and electricity, affecting the Group's business development and performance.

In particular, in the event that the Group's manufacturing facilities for processing 300 mm wafers, its main product, are hit by the above natural disasters, accidents, fires, or other such events, the Group's ability to manufacture and sell 300 mm wafers may be impaired, affecting its business development and performance.

⑭ Risks in 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 or other unexpected situations, such acquisitions may affect the Group's business development and performance.

⑮ Other Risks

The following events resulting from changes in the business environment and other developments may affect the SUMCO Group's performance or financial condition.

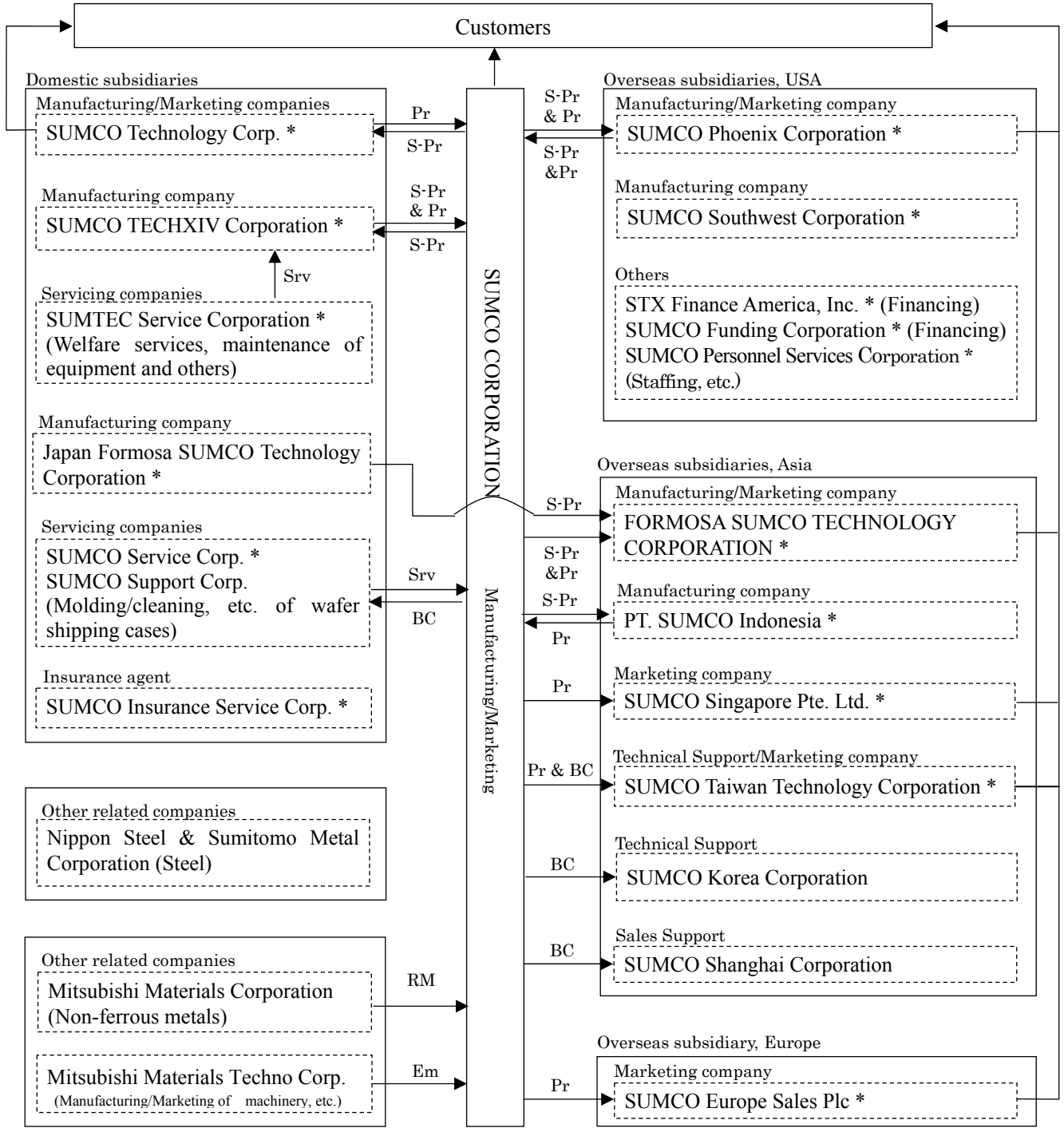
a. Major changes in the business environment necessitating business or organizational restructuring or other actions;
b. With regard to retirement benefit obligations, a decline in the market value of SUMCO's pension assets, a decline in return on investment, or significant changes in the actuarial assumptions used in calculating 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 or other legal actions brought against the SUMCO Group for product problems or other reason;
f. Failure of internal controls to function effectively.

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) Nippon Steel & Sumikin Fine Technology Co., Ltd. (the current Nippon Steel & Sumikin Precise Machining Co., Ltd.) withdrew from the manufacture of industrial machinery, including semiconductor equipment, effective March 31, 2016.

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

The current vigorous demand for semiconductor wafers has made it difficult for SUMCO to supply the quantities required by customers, particularly for the mainstay 300 mm wafers. Moreover, supported by demand for smartphones, automobile, communication, and industrial applications, the market for semiconductor silicon wafers is projected to continue gradual growth in the future.

In this environment, and following the direction set by the SUMCO Vision, the SUMCO Group will continue striving to raise its presence among customers through technology development to meet needs for leading-edge, distinctive products, while improving its break-even point through cost reductions. It will further endeavor to raise productivity, for better meeting customer requirements.

Due to the rapidly changing market for polycrystalline silicon, the principal raw material for silicon wafers, a significant disparity has emerged between demand forecasts at the time of concluding long-term purchase agreements and the current outlook for consumption, as a result of which SUMCO is currently holding excess inventory. The "Raw Materials and Supplies" balance, which includes the inventory of raw materials, amounted to 151.4 billion yen as of the end of fiscal year 2016, up 17.2 billion yen year on year.

This balance is expected to decline in the future as long-term contracts gradually expire, and to recover to more appropriate levels in the medium to long term.

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 FY2015 (Dec. 31, 2015)	End of FY2016 (Dec. 31, 2016)
Assets		
Current assets		
Cash and time deposits	41,913	39,065
Notes and accounts receivable – trade	41,002	44,927
Marketable securities	5,000	6,500
Finished products	16,158	13,272
Work in process	13,229	13,689
Raw materials and supplies	134,224	151,410
Deferred income tax assets	266	41
Other	7,035	6,123
Allowance for doubtful accounts	(11)	(10)
Total current assets	258,818	275,019
Non-current assets		
Property, plant and equipment		
Buildings and structures	195,448	195,671
Accumulated depreciation	(112,647)	(117,702)
Buildings and structures, net	82,800	77,968
Machinery, equipment and vehicles	726,191	731,757
Accumulated depreciation	(676,828)	(683,558)
Machinery, equipment and vehicles, net	49,362	48,198
Land	20,286	20,272
Construction in progress	5,077	3,255
Other	14,567	14,560
Accumulated depreciation	(13,510)	(13,485)
Other, net	1,057	1,075
Total property, plant and equipment	158,585	150,771
Intangible assets		
Goodwill	10,063	8,438
Software	2,709	4,241
Other	1,186	627
Total intangible assets	13,959	13,306
Investments and other assets		
Investment securities	81	82
Long-term advance payments	47,370	44,032
Long-term prepaid expenses	3,676	3,354
Deferred income tax assets	6,494	5,842
Other	1,241	1,213
Allowance for doubtful accounts	(385)	(378)
Total investments and other assets	58,479	54,145
Total non-current assets	231,024	218,224
Total assets	489,842	493,243

(millions of yen)

	End of FY2015 (Dec. 31, 2015)	End of FY2016 (Dec. 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	22,884	27,764
Short-term borrowings	70,235	55,847
Current portion of long-term lease obligations	1,254	1,665
Accrued income taxes	1,451	1,053
Reserve for bonuses	1,231	1,154
Notes and accounts payable – construction	5,708	3,296
Other	8,785	14,410
Total current liabilities	111,550	105,191
Long-term liabilities		
Long-term debt	105,988	116,637
Long-term lease obligations	2,887	2,935
Deferred income tax liabilities	1,800	1,247
Deferred income tax liabilities on revaluation reserve for land	1,413	1,342
Net defined benefit liability	20,058	21,523
Other	1,604	1,528
Total long-term liabilities	133,751	145,215
Total liabilities	245,301	250,407
Equity		
Shareholders' equity		
Capital stock	138,718	138,718
Capital surplus	23,384	23,384
Retained earnings	48,502	50,691
Treasury stock	(11)	(11)
Total shareholders' equity	210,594	212,783
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	0	0
Deferred loss on derivatives under hedge accounting	(0)	(2,484)
Land revaluation surplus	2,816	2,886
Foreign currency translation adjustments	1,753	236
Remeasurements of defined benefit plans	(3,481)	(3,593)
Total accumulated other comprehensive (loss) income	1,088	(2,954)
Non-controlling interests	32,857	33,007
Total equity	244,540	242,836
Total liabilities and equity	489,842	493,243

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

[1] Consolidated Statements of Operations

(millions of yen)

	FY2015 (Jan. 1, 2015– Dec. 31, 2015)	FY2016 (Jan. 1, 2016– Dec. 31, 2016)
Net sales	236,826	211,361
Cost of sales	182,272	173,092
Gross profit	54,553	38,268
Selling, general and administrative expenses	25,106	24,222
Operating income	29,447	14,046
Non-operating income		
Interest income	88	76
Dividend income	26	18
Insurance income	2	291
Subsidy income	389	89
Other	445	166
Total non-operating income	952	642
Non-operating expenses		
Interest expense	3,297	2,775
Foreign exchange loss	12	1,463
Other	1,552	530
Total non-operating expenses	4,861	4,769
Ordinary income	25,538	9,919
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	23,818	9,919
Income taxes – current	1,745	1,053
Income taxes – deferred	(1,328)	90
Total income taxes	416	1,144
Net income	23,401	8,775
Net income attributable to non-controlling interests	3,653	2,187
Net income attributable to owners of the parent	19,747	6,588

[2] Consolidated Statement of Comprehensive Income

(millions of yen)

	FY2015 (Jan. 1, 2015– Dec. 31, 2015)	FY2016 (Jan. 1, 2016– Dec. 31, 2016)
Net income	23,401	8,775
Other comprehensive income		
Net unrealized gain on available-for-sale securities	0	0
Deferred (loss) gain on derivatives under hedge accounting	0	(2,483)
Revaluation reserve for land	145	70
Foreign currency translation adjustments	(1,743)	(2,143)
Remeasurements of defined benefit plans, net of tax	(40)	(97)
Total other comprehensive loss	(1,638)	(4,653)
Comprehensive income	21,763	4,122
Total comprehensive income attributable to		
Owners of the parent	19,054	2,545
Non-controlling interests	2,709	1,576

(3) Consolidated Statements of Changes in Equity

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 attributable to owners of the parent			19,747		19,747
Purchase of treasury shares				(54,404)	(54,404)
Retirement of treasury shares		(54,403)		54,403	—
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						Non-controlling 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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
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 attributable to owners of the parent								19,747
Purchase of treasury shares								(54,404)
Retirement of treasury shares								—
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

For the year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(Millions of yen)

	Shareholder's equity				
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	138,718	23,384	48,502	(11)	210,594
Cumulative effects of changes in accounting policies					
Restated balance	138,718	23,384	48,502	(11)	210,594
Changes during period					
Issuance of new shares					
Transfer to other capital surplus from capital stock					
Dividends of surplus			(4,399)		(4,399)
Net income attributable to owners of the parent			6,588		6,588
Purchase of treasury shares				(0)	(0)
Retirement of treasury shares					
Net changes of items other than shareholders' equity					
Total changes during of period	—	—	2,188	(0)	2,188
Balance at end of period	138,718	23,384	50,691	(11)	212,783

	Accumulated other comprehensive income						Non-controlling 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	Remeasurements of defined benefit plans	Total accumulated other comprehensive loss		
Balance at beginning of period	0	(0)	2,816	1,753	(3,481)	1,088	32,857	244,540
Cumulative effects of changes in accounting policies								
Restated balance	0	(0)	2,816	1,753	(3,481)	1,088	32,857	244,540
Changes during period								
Issuance of new shares								
Transfer to other capital surplus from capital stock								
Dividends of surplus								(4,399)
Net income attributable to owners of the parent								6,588
Purchase of treasury shares								(0)
Retirement of treasury shares								
Net changes of items other than shareholders' equity	0	(2,483)	70	(1,516)	(112)	(4,042)	149	(3,893)
Total changes during of period	0	(2,483)	70	(1,516)	(112)	(4,042)	149	(1,704)
Balance at end of period	0	(2,484)	2,886	236	(3,593)	(2,954)	33,007	242,836

(4) Consolidated Statements of Cash Flows

(millions of yen)

	FY2015 (Jan. 1, 2015– Dec. 31, 2015)	FY2016 (Jan. 1, 2016– Dec. 31, 2016)
Operating activities:		
Income before income taxes	23,818	9,919
Depreciation and amortization	21,795	22,002
Impairment loss	2,043	—
Amortization of goodwill	1,657	1,625
Decrease (increase) in allowance for doubtful accounts	2	(0)
Decrease (increase) in reserve for bonuses	313	(47)
Increase in net defined benefit liability	1,237	1,382
Interest and dividend income	(115)	(95)
Interest expense	3,297	2,775
Net Income (loss) on sales and disposal of fixed assets	(183)	260
Increase (decrease) in notes and accounts receivable - trade	1,367	(4,139)
Increase in inventories	(13,062)	(15,327)
Decrease (increase) in other current assets	(452)	947
Decrease in notes and accounts payable, trade	(6,655)	5,326
Increase (decrease) in other current liabilities	(2,628)	3,291
Other, net	3,933	3,839
Subtotal	36,366	31,761
Interest and dividends received	115	95
Interest paid	(3,394)	(2,883)
Income taxes paid	(1,318)	(1,650)
Net cash provided by operating activities	31,768	27,322
Investing activities:		
Payments for purchases of fixed assets	(12,656)	(18,688)
Other, net	(760)	684
Net cash used in investing activities	(13,416)	(18,003)
Financing activities:		
Decrease (increase) in short-term borrowings, net	15,287	(17,796)
Proceeds from long-term debt	4,000	63,234
Repayments of long-term debt	(60,416)	(49,177)
Proceeds from sale and leaseback	1,500	1,998
Repayments of lease obligations	(1,192)	(1,554)
Proceeds from issuance of new shares	63,753	—
Payments for purchases of treasury stock	(54,404)	(0)
Dividends paid	(5,088)	(4,399)
Dividends paid to minority shareholders	(1,575)	(1,427)
Net cash used in financing activities	(38,136)	(9,120)
Foreign currency transaction adjustment on cash and cash equivalents	(123)	(442)
Net decrease in cash and cash equivalents	(19,907)	(243)
Cash and cash equivalents at beginning of year	65,716	45,809
Cash and cash equivalents at end of year	45,809	45,565

(5) Notes to Consolidated Financial Statements

(Notes regarding Going Concern Assumption)

Not applicable

(Changes in Accounting Policies)

(Adoption of Accounting Standard for Business Combinations, etc.)

The Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), etc. effective from the fiscal year under review. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the consolidated financial statements for the fiscal year in which the business combination occurs. Additionally the presentation method of net income was amended and the reference to "Minority interests" was changed to "Non-controlling interests". To reflect these changes in presentation, consolidated financial statements in the previous fiscal year have been reclassified.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. Accordingly, these changes are effective from the beginning of the fiscal year under review.

Those changes had no impact on the consolidated financial statements for the fiscal year under review.

(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Accompanying tax reform, the Company and its domestic subsidiaries have applied "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (PITF No. 32, June 17, 2016) in its consolidated financial statements beginning with the fiscal year under review. As a result, the Company and its domestic subsidiaries have changed their method of depreciation for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change in accounting principles on the consolidated financial statements for the fiscal year under review was not material.

(Segment information)

a. Segment information

For the year ended December 31, 2015 (January 1, 2015 – December 31, 2015) and the year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

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, 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

For the year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

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
53,653	28,057	112,737	16,913	211,361

(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
107,439	38,941	4,390	150,771

3. Information about major customers

(millions of yen)

Customer name	Net sales	Relevant segment
Sumitomo Corporation	30,767	Crystalline silicon
Samsung Electronics Co., Ltd	22,638	Crystalline silicon

c. Information about impairment loss

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.”

For the year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

Not applicable

d. Information about amortization of goodwill

For the year ended December 31, 2015 (January 1, 2015 – December 31, 2015) and the year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

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, 2015 (January 1, 2015 – December 31, 2015) and the year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

Not applicable

(Per-share information)

	Year ended Dec. 31, 2015 (Jan. 1, 2015 – Dec. 31, 2015)	Year ended Dec. 31, 2016 (Jan. 1, 2016 – Dec. 31, 2016)
Equity per share	721.78 yen	715.46 yen
Net income per share	70.06 yen	22.46 yen
Diluted net income per share	67.77 yen	―

(Note) 1. Diluted net income per share for the year ended December 31, 2016 is not described since dilutive effect did not exist.

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

	Year ended Dec. 31, 2015 (Jan. 1, 2015 – Dec. 31, 2015)	Year ended Dec. 31, 2016 (Jan. 1, 2016 – Dec. 31, 2016)
Net income per share		
Net income attributable to owners of the parent (millions of yen)	19,747	6,588
Amount not belonging to common shareholders (millions of yen)	―	―
Net income attributable to owners of the parent for common stock (millions of yen)	19,747	6,588
Average number of shares during the period (shares)	281,860,998	293,278,695
Diluted net income per share		
Adjustment of net income attributable to owners of the parent (millions of yen)	―	―
Increase of common share (shares)	9,534,441	―
(Preferred stock (shares))	(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