Brief Statement on Consolidated Financial Results for the Second Quarter (ended June 30, 2019) of Fiscal Year 2019 (ending December 31, 2019) [Japanese Accounting Standards]

August 6, 2019

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TSE First Section
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Scheduled date of filing of quarterly security report: August 9, 2019
Scheduled date of commencement of dividend payment: September 6, 2019
Supplementary materials for quarterly financial results: Yes
Quarterly results briefing: Yes (For institutional investors and security analysts)

(Amounts smaller than one million yen are rounded down)

1. Consolidated Business Results for the Second Quarter (January 1, 2019–June 30, 2019) of Fiscal Year 2019 (ending December 31, 2019)

(1) Consolidated Business Results (fiscal year-to-date)

(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)	(%)
2Q of FY2019	156,487	(1.6)	33,543	(18.6)	32,719	(18.4)	22,979	(18.4)
2Q of FY2018	159,023	28.3	41,192	137.8	40,092	191.9	28,151	192.2

(Note) Comprehensive income
2Q of FY2019: 23,343 million yen ((14.8%)); 2Q of FY2018: 27,393 million yen (84.9%)

	Net income per share for quarter (yen)	Diluted net income per share for quarter (yen)
2Q of FY2019	78.35	—
2Q of FY2018	95.99	—

(2) Consolidated Financial Position

	Total assets (millions of yen)	Equity (millions of yen)	Shareholders' equity ratio (%)
2Q of FY2019	581,941	332,913	51.0
FY2018	588,250	325,545	48.4

(Reference) Shareholders' equity: 2Q of FY2019: 296,846 million yen; FY2018: 284,997 million yen

2. Dividend Payments

	Yearly dividend per share				
	First quarter (yen)	Second quarter (yen)	Third quarter (yen)	Year-end (yen)	Full year (yen)
FY2018	—	30.00	—	32.00	62.00
FY2019	—	25.00			
FY2019 (Forecast)			—	—	—

Note: (1) Revisions to dividend forecasts made during the quarter under review: No
(2) Year-end dividend per share for the fiscal year-ending December 31, 2019 is not determined.

3. Consolidated Business Forecasts for the Third Quarter of Fiscal Year 2019 (January 1, 2019–September 30, 2019)

(Percentage figures represent changes from previous year)

	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)
Third Quarter (9 months)	228,400	(5.8)	41,500	(35.4)	40,200	(35.9)	27,900	(34.6)	95.13

Note: (1) Revisions to consolidated business forecasts made during the quarter under review: Yes
(2) SUMCO discloses forecasts for the forthcoming quarter only. Please see "(2) Explanation of Business Forecasts" on page 2 of Supplementary Materials.

* Notes

(1) Changes in important subsidiaries during the quarter under review: No
New Company: ― Exclusion: ―

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statement: No

(3) 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: Please see "(3) Notes on Consolidated Financial Statements (Changes in Accounting Policies)" on page 6 of Supplementary Materials.

(4) Number of issued shares (common stock)
[1] Issued shares as of the end of period (including treasury stock):
293,285,539 shares as of the end of second quarter of FY2019; 293,285,539 shares as of the end of FY2018
[2] Treasury stock as of the end of period:
7,615 shares as of the end of second quarter of FY2019; 7,575 shares as of the end of FY2018
[3] Average number of shares during period (fiscal year-to-date):
293,277,947 shares during the second quarter of FY2019; 293,278,122 shares during the second quarter of FY2018

* This Brief Statement on Consolidated Financial Results is not subject to quarterly review procedures by certified public accountants or auditing companies.

* 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 "(2) Explanation of Business Forecasts" on page 2 of Supplementary Materials.

Year-end dividend per share for the fiscal year-ending December 31, 2019 is not determined, and a forecast will be disclosed as soon as the disclosure becomes possible.

Quarterly results briefing for institutional investors and security analysts is scheduled on August 6, 2019. Supplementary materials for quarterly financial results are available in our website after starting the briefing.

(Supplementary Materials)

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1. Qualitative Information for the Second Quarter of Fiscal Year 2019

(1) Explanation of Business Results

During the second quarter of fiscal year 2019 (April 1, 2019–June 30, 2019), volume correction began for 300 mm silicon wafers, as semiconductor demand fell due to declining smartphone sales volume and scaled back investment in data centers. Similarly, overall demand softened for small-diameter wafers of 200 mm or less including for industrial and consumer, despite firm demand for some automotive applications.

In this environment, in line with the SUMCO Vision, the SUMCO Group sought to maintain our strong presence with customers through technology development aimed at meeting their needs for leading-edge, distinctive products, while endeavoring also to improve our profitability by optimizing pricing.

As a result, for the period under review, the Group registered consolidated net sales of 156,487 million yen, operating income of 33,543 million yen, ordinary income of 32,719 million yen. Net income attributable to owners of the parent of 22,979 million yen, as a result of posting Gain on revision of retirement benefit plan of 917 million yen.

(2) Explanation of Business Forecasts

The third quarter outlook for the worldwide semiconductor silicon wafer market is for continued inventory adjustment by customers in the memory segment, even as a recovery trend is seen for 300 mm leading-edge logic. Continuation of the correction phase for 200 mm wafers is also likely with softening of demand for industrial and consumer. Of further concern, in addition to the slowing of worldwide economic growth, is the impact on wafer demand from trade friction between the US and China and other such factors.

In this market environment, the Group will continue developing leading-edge technologies that differentiate its products from the competition. Since demand growth continues to be expected in the medium term, we will seek to meet customer needs through phased augmenting of equipment capacity premised on optimization of price levels.

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

SUMCO announces its consolidated business forecasts for the third quarter of fiscal year 2019 as follows.

Consolidated Business Forecasts for the Third Quarter of Fiscal Year 2019 (Jan. 1, 2019–Sep. 30, 2019)

	Net sales (millions of yen)	Operating income (millions of yen)	Ordinary income (millions of yen)	Net income attributable to owners of the parent (millions of yen)	Net income per share (yen)
Previous Forecasts (A)	—	—	—	—	—
Revised Forecasts (B)	228,400	41,500	40,200	27,900	95.13
Changes (B-A)	—	—	—	—	
Rate of changes (%)	—	—	—	—	
(Reference) Results for 3Q-FY2018 (9 months)	242,456	64,252	62,702	42,663	145.47

(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 third quarter of fiscal year 2019 (Jul. 1, 2019–Sep. 30, 2019) was made assuming translation rates of one U.S. dollar to 108 yen.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(millions of yen)

	End of FY2018 (December 31, 2018)	End of 2Q of FY2019 (June 30, 2019)
Assets		
Current assets		
Cash and time deposits	57,900	53,452
Notes and accounts receivable – trade	64,979	60,248
Marketable securities	21,000	18,300
Finished products	15,562	17,445
Work in process	18,812	18,538
Raw materials and supplies	153,145	151,924
Other	8,483	7,814
Allowance for doubtful accounts	(12)	(12)
Total current assets	339,872	327,711
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	72,316	71,546
Machinery, equipment and vehicles, net	63,335	75,649
Land	20,314	20,294
Construction in progress	22,597	19,885
Other, net	1,073	1,624
Total property, plant and equipment	179,636	189,001
Intangible assets		
Goodwill	5,187	4,374
Other	6,342	6,851
Total intangible assets	11,529	11,226
Investments and other assets		
Investment securities	102	102
Long-term advance payments	38,153	36,954
Deferred income tax assets	15,130	12,860
Other	4,109	4,366
Allowance for doubtful accounts	(284)	(280)
Total investments and other assets	57,212	54,002
Total non-current assets	248,378	254,229
Total assets	588,250	581,941

(millions of yen)

	End of FY2018 (December 31, 2018)	End of 2Q of FY2019 (June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	27,932	24,297
Short-term borrowings	33,107	26,164
Current portion of long-term lease obligations	1,022	853
Accrued income taxes	6,493	4,586
Reserve for bonuses	2,043	1,211
Other	43,117	36,963
Total current liabilities	113,716	94,075
Long-term liabilities		
Long-term debt	118,598	125,558
Long-term lease obligations	643	463
Net defined benefit liability	24,939	24,509
Other	4,807	4,421
Total long-term liabilities	148,988	154,952
Total liabilities	262,704	249,028
Equity		
Shareholders' equity		
Capital stock	138,718	138,718
Capital surplus	30,763	30,763
Retained earnings	117,812	131,428
Treasury stock	(12)	(12)
Total shareholders' equity	287,282	300,898
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	0	0
Deferred loss on derivatives under hedge accounting	(0)	(0)
Land revaluation surplus	2,885	2,885
Foreign currency translation adjustments	(1,227)	(3,452)
Remeasurements of defined benefit plans	(3,944)	(3,484)
Total accumulated other comprehensive loss	(2,285)	(4,051)
Non-controlling interests	40,548	36,066
Total equity	325,545	332,913
Total liabilities and equity	588,250	581,941

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

(Consolidated Statement of Income)

(millions of yen)

	2Q of FY2018 (January 1, 2018– June 30, 2018)	2Q of FY2019 (January 1, 2019– June 30, 2019)
Net sales	159,023	156,487
Cost of sales	103,440	108,944
Gross profit	55,583	47,543
Selling, general and administrative expenses	14,390	13,999
Operating income	41,192	33,543
Non-operating income		
Interest income	241	381
Dividend income	40	32
Other	163	149
Total non-operating income	445	562
Non-operating expenses		
Interest expense	787	543
Commission for syndicate loan	—	360
Other	759	483
Total non-operating expenses	1,546	1,386
Ordinary income	40,092	32,719
Extraordinary income		
Gain on revision of retirement benefit plan	—	917
Total extraordinary income	—	917
Income before income taxes	40,092	33,637
Income taxes	6,133	7,036
Net income	33,958	26,600
Net income attributable to non-controlling interests	5,806	3,621
Net income attributable to owners of the parent	28,151	22,979

(Consolidated Statement of Comprehensive Income)

(millions of yen)

	2Q of FY2018 (January 1, 2018– June 30, 2018)	2Q of FY2019 (January 1, 2019– June 30, 2019)
Net income	33,958	26,600
Other comprehensive income		
Net unrealized loss (gain) on available-for-sale securities	0	(0)
Deferred gain (loss) on derivatives under hedge accounting	(2)	0
Foreign currency translation adjustments	(4,393)	(3,740)
Remeasurements of defined plans, net of tax	(2,169)	482
Total other comprehensive loss	(6,565)	(3,257)
Comprehensive income	27,393	23,343
Total comprehensive income attributable to:		
Owners of the parent	23,543	21,213
Non-controlling interests	3,849	2,129

(3) Notes on Consolidated Financial Statements

(Notes regarding Going Concern Assumption)

Not applicable

(Notes regarding Significant Changes in Shareholders' Equity)

Not applicable

(Changes in Accounting Policies)

1. Overseas subsidiaries adopting the US-GAAP have started to apply ASC 606, Revenue From Contracts With Customers as of the first quarter consolidated accounting term.

As a result of this change, revenue is recognized at the time the promised goods or services are transferred to the customer, in an amount that reflects the consideration expected to be received in exchange for the goods or services.

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing on the starting date of application the cumulative effects of applying this standard, adjusting retained earnings at the beginning of the first quarter consolidated accounting term.

As a result, "Retained earnings" balance at the beginning of the first quarter consolidated accounting term increased by 27 million yen. The impact on profit and loss in the second quarter (January 1, 2019–June 30, 2019) is minor.

2. At overseas subsidiaries adopting IFRS, the leases standard (IFRS 16) is applied from the first quarter consolidated accounting term.

With this change, all leases are in principle recognized as right-of-use assets indicating the right to use the underlying assets, and as lease liabilities representing the obligation to make lease payments. After recognizing right-of-use assets and lease liabilities, the depreciation and amortization costs of the right-of-use assets and the interest costs of the lease liabilities are booked.

On the consolidated balance sheet, the right-of-use assets are shown as "Property, plant and equipment: other-net" and lease liabilities are included in "Long-term lease obligations."

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing on the starting date of application the cumulative effects of applying this standard, adjusting "Retained earnings" at the beginning of the first quarter consolidated accounting term.

As a result, "Retained earnings" at the beginning of the first quarter consolidated accounting term declined by 6 million yen. The impact on profit and loss in the second quarter (January 1, 2019–June 30, 2019) is minor.